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**NON-FINANCIAL CORPORATIONS IN LEBANON:
WHO GOVERNS? “THE GOVERNANCE MYOPIA”**

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Abstract

The purpose of this paper is to study governance practices in non-financial enterprises in Lebanon, and it is the first time that such enterprises are studied in the Lebanese context. Only three non-financial institutions are listed in the Beirut Stock Exchange (BSE), which constitute the whole population of this research. Built on Principles, Governance is based on transparency and on accurate, relevant, and timely information in order to support the Board members' decision-making (OECD, 2015). Balanced between Jensen and Meckling's (1976) agency theory and Donaldson and Davis' (1991) Stewardship theory, the results of our Qualitative study showed that the main problems faced by the enterprises are not in the quality of information but rather in its selection and filtering, which opens doors to "Governance Myopia". Face-to-face interviews showed that the primary conflict in our case is between the non-financial enterprises and the BSE, since the BSE is controlled by the enterprises and is not controlling them. The main reason of such practices come from the fear of the BSE of losing a potential position in the MENA Exchange Market, doubled with the fear of losing potential investors. All these reasons weigh heavily on the Administrators of the BSE in Lebanon, forcing them to choose the "Laisser passer" way. Referring to the soft Law when dealing with the companies, the BSE is playing the double role of a marketer and a controller, thus not willing to impose restrictions. A need for "harder laws", for "Privatization" of the BSE, and a call to the Capital Market Authority (CMA) to put more restrictions on Corporations should be observed.

Keywords: Corporate Governance, Non-financial Enterprises-Beirut Stock Exchange, Capital Market authority-Hidden information, Soft/Hard Law- Privatization, Governance Myopia

1. INTRODUCTION

Among the important components that influence decision-making inside a firm, we can list: corporate culture, internal communications system, availability and transparency of information, interrelations between resources especially those related to humans, governance structures and organizational processes and design.

Corporate governance requires companies to draw limits between ownership and control, whether for financial or non-financial reasons. In this context, Berle and Means (1930), warned that the distribution of the returns from business enterprise through unchecked corporate power can have serious consequences on the firm. The agency theory of Jensen and Meckling (1976) argued that corporate

control is assumed non-existent. Therefore, moral hazards, asymmetric information, incomplete contracts, and adverse selection can be observed among agents in the organization.

Because of the political situation, the Beirut Stock Exchange (BSE), which suspended all activities in 1983, resumed them recently with only 6 Banks, 3 non-financial enterprises (2 of which are Industrial: S.L.des Ciments Blancs, Holcim (Liban), and 1 Trading: Rasamny Younis Motor Co.), in addition to Solidere, the Lebanese Company for the Development and Reconstruction of Beirut Central District s.a.l. A report that was published on January

4, 2016, on the website Shareholder-rights.com²⁶ studied the degree of transparency of governance of all ten companies listed on the Stock Exchange of Beirut. They got a total average of 27 %, the equivalent of a "D", in a grading system ranging from A to F²⁷, which means that all companies in question "apply the strict minimum imposed by regulatory authorities". Separately, the six listed banks on the Beirut Stock Exchange got an average of (39%) while Holcim Lebanon got a (4 %), Rymco (1%) and Ciments Blancs (0%). The 3 non-financial enterprises were therefore graded « F » (Hajj-Boutros, 2016). Akkaoui²⁸ accused Holcim Lebanon and Ciments Blancs - two subsidiaries of Holcim Group, whose Headquarters are based in Switzerland - of respecting the principles of governance in Switzerland while disrespecting them in Lebanon.

The purpose of this paper is to investigate the application of governance in the non-financial enterprises listed at the Beirut Stock Exchange (BSE) in Lebanon, a topic that has never been studied before. Previous studies rather examined the Lebanese corporate governance system as a whole (Chahine and Safieddine 2007), or the effect of corporate governance mechanisms on bank performance in Lebanon (Chahine and Safieddine, 2011).

The study is arranged as follows: Section 1 reviews and discusses the literature and proposes hypotheses. Section 2 presents the methodological approach for the study. Section 3 reveals the results, and Section 4 discusses the findings. Finally, Section 5 concludes and raises awareness about the limitations of the study.

2. LITERATURE REVIEW AND SEARCH FOR HYPOTHESES

There is not one comprehensive definition that is attributed to Corporate Governance, even though it is a frequently used term. However, referring to Charreaux (1997), it is defined as "All the organizational mechanisms that govern the conduct of managers and define their discretionary space." As for Armstrong et al (2010), Corporate Governance is "the subset of a firm's contracts that help align the actions and choices of managers with the interests of shareholders". Built on Principles, Governance is based on transparency and on accurate, relevant, and timely information in order to support the Board members' decision-making (OECD, 2015)

2.1. The agency theory: The pool of personal profit

Since organizing properties has become a dynamic in the balance of powers, Berle and Means advocated in their classic "Modern Corporation and private property" that due to the separation of powers the internal environment of corporations is dealing with opposing groups and ownership on one side, and control on the other. This gave birth to "new princes exercising their power whilst relegating owners to the

position of those who supply the means" (Berle and Means, 1932, p116). The authors also suggested that the surrender of control of the investors' wealth to a *unified direction* raises the question of the motive behind accepting such responsibilities (Berle and Means, 1932, p4). Followed by other authors, new interpretations of the concept came to explore its different cornerstones. First explored by Ross (1973), then by Jensen and Meckling, (1976), the agency theory for instance argued that the agency relationship is a legal arrangement between two or more persons called (principal) who engage an (agent) *to perform some service on their behalf, which involves delegating some decision-making authority*. This type of relationship may therefore include opportunism and self-parochial interest, because of the tendency of some managers to search for personal profits rather than investing in projects with added value to shareholders. However, this pool of personal interests can be diluted in family-businesses. Other studies, as Donnelly's, revealed that when it comes to family-business, the actions of members of the family reflect on the reputation of the enterprise. Poutziouris (2004) study showed that 42 listed family-owned Businesses on the London Stock Exchange, outperformed non-family Businesses by 40% from 1999 to 2005. Study presumed that the value of good governance in family-owned Businesses is higher than in other types of Businesses. Another study conducted by the Credit Suisse (2007) uncovered two factors that can contribute to this better performance: 1) Longer-term strategies focusing on determining Business succession, and 2) better alignment between both management and shareholders' interests. These studies lead us to the "Stewardship theory", which is an alternative view of the "Agency Theory". The Stewardship theory argues that shareholder interests are maximized by shared incumbency of the roles of board chair and CEO (Donaldson, Donaldson, and Davis, 1991). Opportunism emerges when there is a board chair independent of the CEO. From these different points of view, we therefore propose Hypothesis 1:

H1: The conflict of interest between principals and agents is higher in non-Family owned Business than in Family-owned Businesses.

2.2. In a complex environment with limited information

Two decades after Berle and Means, Simon (1955, 1956, 1957) developed a model of human cognitive limitations incorporating information (search) and computational costs. He suggested that maximization is virtually unrealizable in real life, due to the complexity of the human environment and the limitations of human information processing. He argued that in terms of decision making, people always "satisfice" rather than "maximize", which has important implications for the behavior of managers. Penrose (1958) stressed that uncertainty results from "the feeling that one has too little information, which

²⁶ Hajj-Boutros based his report at L'orient Le jour on a study conducted by Yasser Akkaoui, President of Capital Concept, recognized by the Central Bank since 2011. Akkaoui argued that the principles of corporate governance were developed by the Organization for Economic Cooperation and Development (OECD) in 1994. Each country has its own code. Lebanon got it since 2007.

²⁷ An "A" means that the company publishes over 90% of the necessary information to shareholders, while an "F" accuses the company of being completely opaque.

²⁸ As aforementioned, Yasser Akkaoui is the President of Capital Concept, first writer of the report.

leads to a lack of confidence in the soundness of the judgment that lies behind any given plan of action" (Penrose, 1958, 59). Lack of information can increase risks and can enhance the possibility of bigger risks of loss due to moral hazard, adverse selection problems (Rajan and Zingales 1998), and opportunistic managers (Bushman and Smith, 2003). Therefore, organizations should be committed to obtaining more information to reduce uncertainty and optimize decision making, especially that the decision process is fundamentally associated with the image of the enterprise. As a matter of fact, promoting the governance of publicly traded companies serves such companies: 1/ to ensure that minority shareholders receive reliable information about the value of firms and that a company's managers and large shareholders do not cheat them out of the value of their investments, and 2/ to motivate managers to maximize firm value instead of pursuing personal objectives (Bushman and Smith, 2003). In accordance, The OECD stressed that the framework of the Corporate Governance should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities (OECD, 2004). It presumed that full disclosure and transparency of financial information as vital components of the Corporate Governance Framework. It also argued that if the stakeholders should participate in the corporate governance process, they should have access to relevant, sufficient and reliable information on a timely and regular basis (OECD, 2004). The results of Beeks and Brown's study (2005) asserted that firms with higher Corporate Governance quality make more informative disclosures. Although in order to protect their jobs, managers have a bigger tendency to conceal bad news (Jin and Myers, 2006). "The more opaque the firm, the greater the amount of hidden, firm-specific bad news that may arrive in a given span of time". Owners are therefore invited to expose their managers' hidden secrets, break through the opaqueness and fight it. We propose Hypotheses 2:

H2: The more financial opacity, the bigger the conflict inside the company.

2.3. Calling for more Voluntary information

In 2015, the OECD introduced a chapter called *Disclosure and transparency*, among the six main principles that can provide guidance and raise awareness of good corporate governance. The importance of the chapter is that it does not only identify key areas of disclosure, but that it includes the recognition of recent trends with respect to items of non-financial information that companies may voluntarily include in their management reports. This new trend already had its foundation in the writings of Hossain and Hammami (2009). In their article, "Voluntary disclosure in the annual reports of an emerging country: The case of Qatar", the authors stressed the importance of voluntary information. They argued that voluntary information builds confidence with the investors, hence the corporations should be transparent enough in making it public.

Another article of Cheung et al (2010) on Chinese listed companies pointed to the importance of the positive relationship between the voluntary disclosures and market valuation. Also, the study of the variation in voluntary disclosure of Bromberg et. al. (2010) supports that the size and debt ratio are positively correlated with the content of information in voluntary disclosures. Another study of Jatinder et al (2010), conducted on 13 banks ranked top in position in India also revealed that voluntary corporate information obtained from the development of an information disclosure system has its own importance and is complementary to the mandatory information system. The results of Broberg et al (2010) study of the annual reports of 431 companies listed on the Stockholm stock exchange showed that corporations with a low share of management ownership, and those with foreign ownership and international listing, have a positive effect on the content of voluntary disclosures. As for Burcu and Bengu (2014), voluntary disclosure enhances transparency, which reduces the information asymmetry between the insiders and outsiders of the organizations. The voluntary aspect allows management discretion in deciding the content of information to disclose, which is recommended as the best practice. Hence, the third hypothesis for this study is:

H3: The more voluntary information, the better the transparency of information.

2.4. Despite the duality of Soft/ Hard Laws and comply/explain contexts

Information and transparency are not the only conceptual framework of governance. Governance also largely depends on Laws. Protected from arbitrary decisions, corporations can rely on Law to free governance from corruption and narrow private interest groups. Referring to Berle and Means (1932), the authors suggest that it is the Law that holds the management to certain standards of conduct, such as: 1/ a decent amount of attention to Business; 2/fidelity to the interest of the corporation; 3/ reasonable business prudence (Berle and Means, 1932, p197); which raises the question of a better governance under effective Laws. Nowadays, regulators face another challenge: which Law is to be chosen for the regulation of corporate governance practices? Is it the hard law or the soft Law? The hard law defines a strict set of mandatory instructions, based on: obligations, precision, detailed and precise language, and delegation to an independent party; the soft law has weaker obligations, vague wording, and keeps delegation within parties (Abbott and Snidal, 2000). From the shareholders' perspectives, soft regulations practices are more efficient to the governance mechanisms of firms, however they cannot always solve governance problems (Arcot et al, 2005),

Moreover, studies have revealed that it is up to the companies themselves to choose between complying with good governance principles or not. If they choose not to, they need to justify their choice (Rapp et al, 2003). In such a comply or explain concept, flexibility is observed in order to lead to

better governance, encouraging companies to adopt the spirit of the Code, and allowing some deviations from the rule without fostering investors' trust (Arcot et al, 2005). We therefore propose Hypothesis 4:

H4: The need of establishing good corporate governance is bigger when adopting the soft laws.

2.5. It all depends on the country in which the firm is located

Finally, the results of La Porta et. al. (1999) found that the mandatory type of governance depends on the country in which the firm is located. In their research paper "Corporate governance, investor protection and performance in emerging markets", Klapper and Love (2002), argued that firm-level corporate governance quality matters more for attracting investors in countries with weak legal environments. Their results suggested that firms can partially compensate for ineffective laws and enforcement by establishing good corporate governance and providing credible investor protection. Another research conducted by Sandeep et al in (2002), on 19 emerging markets for 354 firms, shows that the Latin American, Eastern European, and Middle Eastern emerging markets have significantly less transparency and disclosure compared to Asian emerging markets and South African ones. On the other hand, studies have also revealed that firms located in countries with poor country-level governance, have a higher tendency to hide information and to reach higher opacity. Fearing the risk of expropriation, makes the cash flows of these firms riskier (Jin and Myers, 2006): "stocks in more opaque countries are more likely to "crash," that is, to deliver large negative returns, than stocks in relatively transparent countries". The more recent research of Ntow-Gyamfi et al (2015) on 31 corporate companies in Ghana, is also significant, since it reveals that in the absence of an effective framework for compliance, effective corporate governance at firm level is expected to play a crucial role in improving disclosure of corporate information and transparency. Listing on the exchange stock market (ESM) increases the level of transparency in a firm. For this reason, as a firm remains longer on the ESM, transparency is improved since the market learns more about the firm. These factors can facilitate the operation of securities markets and the efficient flow of scarce human and financial capital to promising investment opportunities (Bushman and Smith, 2003). Therefore we propose one more Hypothesis:

H5: Transparency of information highly depends on the country in which the firm is located.

3. METHODOLOGICAL APPROACH OF THE STUDY

3.1. Justification of the study and Methodology

Our study contributes to the extant literature. While several authors emphasize the role of corporate governance in Lebanese banks, no authors have studied the topic of governance in non-financial enterprises. Our study makes new contributions to literature, since it is the first to provide a comprehensive review on corporate governance in

non-financial Lebanese enterprises, of which are Holcim Liban, Rymco and Ciments Blancs that are listed on the Beirut Stock Exchange. It is worth mentioning that the breakdown of market capitalization by listed company and by economic sector during the first four months of the year 2014 is as follows: the Industry and Trading sector holds a stake of 3.27%, against 19.27% controlled by the Real estate sector and 77.46% by the Banking sector (Credit Libanais, 2014).

This study is a key product of a qualitative exploratory research conducted through the year 2015-2016. It is based on web search, secondary research and primary information based on interviews with people in charge in the three studied corporations. Also, interviews were conducted with an external auditor from one of the biggest companies in charge, and with the Deputy General Secretary of the Beirut stock exchange. Our decision to interview the latter came from the fact that the BSE has "a unique position to influence corporate governance laws and regulations as well as company practices in implementing them" (OECD, 2012).

The importance of the use of the qualitative methodology in our case is to describe: "The emphasis is on a specific case, a focused and bounded phenomenon embedded in its context [...] Such data provide "thick descriptions" that are vivid, nested in real context, and have a ring of truth that has strong impact on the reader, by providing how and why things happen." (Miles and Huberman, 1994, p. 10). This qualitative exploratory approach is also justifiable because the number of corporations under study is limited to 3. Our use of the qualitative methodology helped us pursue-in-depth information around the topic. While "going with the flow", we were able to ask the interviewees, different open-ended questions, adaptable to the nature of the topic with the objective of collecting as much information as possible. In order to provide reliable answers for the study the sources of information were triangulated and the questions were addressed to: The corporations themselves, the Beirut Stock Exchange, and the external auditors.

3.2. The case studies

To ensure better understanding of the context, a brief description of each corporate entity and an exploration of its background and affiliation to the BSE is provided.

3.2.1. The Beirut Stock Exchange (BSE)

The Beirut Stock Exchange is the principal stock exchange of Lebanon and the second oldest stock market in the region. Established by a decree of the French Commissioner in 1920. The BSE is a public institution run by a committee including a Chairman, a Vice-Chairman and eight members appointed by a decree issued by the Council of Ministers, in accordance with a proposal from the Minister of Finance. **In the 1950s and 1960s**, the Lebanese economy witnessed significant activity with a total of 50 listed bonds. **In 1983**, the BSE suspended its activity and the suspension extended until 1996 when the BSE re-launched the trading activity. The BSE is a

medium for companies to raise capital from the public by listing. The BSE has limited control over the listed companies. It makes sure that companies listed on their exchange are filling 10Q's and other filings in a timely fashion, and in a manner that is compliant with the financial industry regulations. If companies do not comply, the BSE has the capacity to de-list them hence restricting the access of these companies to investors.

In August 2011, the Lebanese parliament endorsed a new Financial Markets Law that resulted in the creation of a Capital Market Authority (CMA) that aims to regulate and supervise the activities of capital markets in Lebanon and to create an adequate legal framework conducive to the development of the Lebanese Financial Markets. This new law previews the establishment of a Financial Market Court to adjudicate financial matters, and the restructuring of the Beirut Stock Exchange, with a view to transfer its ownership to the private sector (BSE, 2016)²⁹.

3.2.2. Holcim Liban S.A.L

Referring to the web search, Holcim is related to Holcim Group Support Ltd (HGRS), which is based in Holderbank Switzerland. Founded in 1912, the Group is globally spread with geographic diversification in more than 70 countries, among which is Lebanon. Previously known as "Société des Ciments Libanais", Holcim is situated on the shore of Chekka bay. With an estimated capital of LBP. 195,160,400,000 and LBP. 10,000 Par value per share, the company is the first in the cement industry that was constructed in Lebanon. Prior to 1931, all innovative cement aggregates, ready-mix concrete, concrete, and asphalt products used in the country were imported. The main objective of diffusing their reports on the web is that they are "committed to report data and information that are reliable, up to date and accurate, hence confirm report credibility" (Holcim, 2015). The Board of Directors in Switzerland is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation (Holcim, 2014). Ernest & Young audits the Holcim Liban SAL separate financial statements which comprise "the statement of financial and the related statements of comprehensive income, changes in equity and cash flows for the year then ended, a summary of significant accounting policies, and other explanatory information" (Ernest & Young, 2014).

3.2.3. Société Libanaise des Ciments Blancs S.A.L

Société Libanaise des Ciments Blancs S.A.L. was incorporated in Lebanon on 28 June 1961. The company's registered head office is in Chekka, Lebanon. It operates as a subsidiary of Holcim (Liban) S.A.L. With a LBP. 13,500,000,000 as Capital and LBP. 1,500 Par value per share, the company is engaged in

the production and sale of white cement. The company is a joint stock company registered at the commercial register no. 3 in North Lebanon. It is 65.99% owned by Holcim (Liban) SAL. The ultimate parent company is Holcim Ltd., Switzerland holding 52.12% ownership of Holcim (Liban) SAL. Ernest & Young are the auditors who are responsible for the company's conformity with generally accepted accounting principles and auditing standards, and for the financial position, results of operations, and cash flow (BSE, 2016).

3.2.4. Rasamny Younes Motor S.A.L

Established as a Lebanese joint company in September 7, 1957, the company's shares were listed on the Beirut Stock Exchange in February 1998. The company's prime activity is the import, export, and trading of cars and spare parts. With a LBP. 27,300,000,000 Capital and LBP. 1,000 Par value per share, the company is the authorized agent in Lebanon for Nissan Motor Company and other companies. The main External auditors of the company. The External auditors are trying to reinvent performance management for a better Transparency and for a better teamwork engagement (Buckingham and Goodall, 2015).

3.3. The interviews

The Table 1 shows that all interviews were face to face except for Rymco whose managers offered only an over the phone meeting, after several persistent trials to reach them. Although we interviewed all companies' managers, the feedback left us convinced that something was missing. So we scheduled an interview with the person in charge at the BSE, and another with the external auditors of one of the companies in order to complement the study and complete the information. All interviewees preferred to remain anonymous.

The questions were developed around the aforementioned theories and the 4 main OECD principles of Corporate Governance (1999-2004-2012):

1. The basis of the Corporate Governance framework;
2. The rights of shareholders and key ownership functions and the limits of their functions;
3. Disclosure, transparency, and the accountability of internal and external auditors;
4. The responsibilities of the Board who should ensure the strategic guidance of the company.
5. Then all information was gathered in distinct files, each with a specific theme. By referring to Windows 10 and Microsoft Excel 2010, we were able to collect, analyze and then critique the gathered information.

²⁹ According to the Ministry of Economy and Trade (2014), the Beirut Stock Exchange (BSE) has a low capitalization of just US\$ 11 billion, and very low trading volumes, reducing its attractiveness for listing and as a possible source

of capital²⁹. According to the World Bank (2009), the Moody's rating for the 13 listed firms in Lebanon was B2. S&P:B- and a Market Capitalization of US \$m1.395 and a turnover ratio of 8.24%.

Table 1. List of interviews' details

Company	Interviewees (Anonymous)	Occupation	Date of interview	Length of interview	Type of interview
Holcim	Mr. T.	Compliance manager	March, 22, 2016	60 mn	Face to face
Ciments Blancs	Mr. C.	Compliance manager	March, 23, 2016	60 mn	Face to face
Rymco	Mrs. A.	Financial Director	April, 8 2016	30 mn	Over the phone
Beirut Stock Exchange	Mr. Y.	Deputy General secretary	March, 30,2016	90 mn	Face to face
External Audit company	Mr. B.	External Auditor	March, 31, 2016	40 mn	Face to face

4. THE RESULTS OF THE STUDY

The qualitative methodology helped us explore the different pillars of the engagement of the industrial and trading Lebanese corporations in the field of Governance.

4.1. The Board members of the three corporations

Holcim Ltd, Switzerland holds 52.12% of Holcim Liban, whilst the latter holds 65.99% of Ciments Blancs. Both companies are therefore related to Holcim Ltd. Switzerland³⁰. This means that the parent company largely dictates the operational strategies of both companies. Two different committees are in charge to ensure transparency and good governance: a governance committee and an audit committee. The Board of Directors appoints managers, whose remuneration depends on the job accomplishment, seniority, competencies, personal skills and productivity. The problem at Rymco is that top managers are family members of the majority shareholders. The distinction between the board of directors and the management team is not evident, whereas, decisions that require a majority vote are in the hands of the family who is running the Business³¹. Boards of all three companies convene at least 3 times per year, on a quarterly basis.

4.2. The Committees

In order to ensure adequate and effective corporate governance, the Board of Holcim and Ciments Blancs set an audit committee with some specific responsibilities. This committee understands the corporates' accounting policies to monitor internal risk, examine and ensure the integrity of financial statements as well as review and approve the annual audit plans of external auditors and the performance of external and internal auditors.

As for Rymco, financial director Mrs A., recognized that the company does not have an audit committee. Usually, this particular situation is rather observed in small companies but not in large corporations. This raises questions around the corporate governance of Rymco, especially since the role of the audit committee is vital as it ensures the

integrity of financial controls and reports, and identifies financial risk.

The BSE is administered by a committee whose main purposes are to manage and regulate the market's daily activities, to oversee its proper functioning, and to protect the investors' interests (Credit Libanais, 2014). The committee is formed of: a Chairman, a Vice Chairman, and eight members. The committee members are appointed by a decree³² issued by the Council of Ministers. According to Mr. Y., there is only one representative of the Lebanese joint-stock companies listed on the BSE. This may impinge on the rights of those companies because decision making within the committee requires the consent of all other members who may not consider the particular interests of the listed companies, which may result in instability for the companies as well as losing part of their independence.

4.3. The Conflict of interest

The main reasons for a company to go public include: raising money, (through the issuance of more stock), offering securities in the acquisition of companies, spreading the risk of ownership among a large group of shareholders, and having its stock listed on a stock exchange. This represents a kind of market exposure for the company, since it attracts the attention of mutual and hedge funds, market makers, and institutional traders. In other words, going public can help the growth of the company, reduces the overall cost of capital, and gives the company a more solid standing when negotiating interest rates with banks. These factors motivate companies to go public and willingly respect all restricted conditions implemented by the Stock Exchange Committees. However, some companies choose to remain private in order to avoid the increased risk of losing control over the company.

According to Mr. Y., the situation in Lebanon is different:

1. Almost 95% of enterprises in Lebanon are small and medium-sized (SMEs) family businesses, with owners who are not open to the idea of exposing their companies' ownership to outsiders, and losing control. This it is not the case of Holcim and Ciments blancs who are joint to Holcim Switzerland³³ while it is the case of

³⁰ Ciments Blancs Board members: Benedikt Vonnegut (Chief Executive of Holcim Lebanon); Prime investments SAL Holding; Holcim (Liban) SAL;Jamil Bou Haroun: (Business Development Director of Holcim Lebanon);Holcim's (Liban) Board members : Mr. Javier de Benito (President) (former Area Manager of Holcim Ltd); Mr. Carlos Khoury vice-president; Mrs. Raya Raphael Nahas Mr. Farouk Jabre shareholder with around 3000 shares; Mr. Horia Adrian (Area Manager Middle East for Lafarge Holcim (Holcim Ltd));Ste Holcibel (Holcim Ltd owns 100 % of Holcibel);Ste Seament SAL.

³¹ Rymco's Board members : Mr. Fayez Camil Rasamny / Chairman of the Board and CEO/Top Manager; Mr. Fadi Adib Younis; Mr. Omar El-Jaroudi; Mr. Albert Letayf; Mr. Ziad Rasamny; Mr. Ziad Rayess; Messrs. Mohamad Abdul Mohsen Al-Kharafi & Sons; Plus Mr. Makram Rasamny Manager-Portports Department

³² In accordance with a proposal by the Minister of Finance, according to article 2, Chapter 1 related to Decree N 7667 issued on 21/12/95.

³³ Also known as LafargeHolcim, the manufacturer of building materials (primarily cement, aggregates and concrete). It was formed by the merger of French cement Lafarge SA and Swiss rival Holcim Ltd cement companies.

Rymco with no dissociation between owners and Board.

2. With the presence of a strong banking sector, business owners do not feel the need to go public because they receive adequate financing from banks.
3. Enterprises in Lebanon are not motivated to go public. If they do, they impose several conditions on the stock exchange committees. Committees accept all dictated conditions, for fear that these companies may leave the stock exchange market. As a matter of fact, our study revealed a decrease of the number of firms going public in Lebanon, dropping from 50 (1950-1960) to 13 companies in 2009 to only 10 in 2016.

Mr.Y. revealed a conflict of interest between the parties. He assumed that some measures have been taken to keep all three companies on the Beirut Stock Exchange, thus reducing the exchange of information that may harm the interests of the companies. The objective behind such measures is to keep these companies public, attract more businesses to go public, reap commissions, sustain employment at the BSE, and send good reports to the ministry of Finance. However, some problems are faced because BSE is a public institution and *"it operates in accordance with the provisions of the Law under the direction of the Stock Exchange Committee (herein referred to as the Committee), and under the supervision of the Ministry of Finance"* (The official Gazette, 1995, article1). In other words, listed companies in the BSE have nothing to lose while the BSE is in a critical situation, since it has obligations towards the public sector and primarily to the ministry of Finance that depends on it. Another conflict is observed because the BSE is playing the role of a marketer and a controller. This leads to a conflict of interest for the BSE which is not willing to impose restrictions nor require obligations from the enterprises.

The other side of the story is told by Mr. T. who denied all conflict described by Mr. Y., and insisted on 3 facts:

1. All information is not only published on the BSE's website, but it is also posted on the web pages of the companies themselves;
2. Both companies are following all regulations and Laws, since any bias can severely affect the share price; and
3. These 2 companies are international, thus their transparency is 100%: a report of 100 to 200 pages is published by Ernest & Young. In contrast to other companies in Lebanon, these companies do not withhold information. Copies of the financial statements and of the annual report are also submitted to all Banks in Lebanon and to all shareholders, including the small ones.

For Rymco, a "do it yourself strategy" is applied. Part of the financial statements (balance sheet and income statement) is sent to the BSE every three months. Another report is sent to the external auditors every year, who in turn send it back to BSE. According to Mrs A., only mandatory and strict minimum information are sent to the BSE since revealing information in some financial statements would harm the company if it reveals valuable "secrets" to the company's competitors.

4.4. The principle of Transparency

Listed companies insist on being transparent. However, interviewees mentioned that Banks could be more reliable in their reports and hence more transparent than non-financial enterprises. This is due to the fact that the central bank (Banque du Liban, BDL) ensures immediate control over banks and requires accurate information about the banking activities. Therefore, to better develop the Lebanese Capital Markets, a Capital Market Authority (CMA) was created under the supervision of BDL's Governor, Riad Salameh, for all companies, whether listed or unlisted on the Stock Exchange, in an attempt to guarantee more integrity and reliability.

Meanwhile, we detected some discrepancies. Enterprises presume that they are fully transparent. However, we discovered during the interviews that the external auditors are releasing all information that confirms the companies' statements around respecting the transparency Principles. Yet, the auditors also revealed that they are neither responsible for the internal control (since their audit scope of work is affected by the internal implemented control procedures), nor for the corporate governance of the firm; the external auditors' study relies on financial statements provided by the companies. This means that external auditors are restricted by the information that is selected by the managers themselves.

4.5. The Laws

According to Mr.Y., some of the procedures already established between the stock exchange market and the listed industrial and trading companies are really soft. In summary, today's listed companies follow only 70-75% of the existing regulations. They are therefore not totally complying with the rules and directives of the BSE. The BSE is behaving prudently to avoid publishing any report that can harm any of the 3 companies.

Two main reasons are behind disregarding some information:

1. The degradation of the economic situation that encourages a kind of flexibility to keep businesses in Lebanon .A decline in the number of listed companies at the BSE as well as a decline in stocks that can hurt confidence and discourage investors from investing in Lebanon.
2. The fragility of the BSE in Lebanon that pushes companies to avoid following regulations to the letter. As a matter of fact, our investigations revealed that this strategy had been followed by the BSE in order to prevent more companies from leaving the BSE.

By-laws of the Beirut Stock Exchange, especially code 158 and code 91 (The Official Gazette - Issue No.51 - 21/12/95) serve as norms of conduct for the non-financial enterprises in Lebanon to fully comply with the regulations of BSE. According to code 91, when applying for admission, the issuer signs a written commitment that conforms to the rules that are set by the Committee. It also includes publishing the balance sheets as well as the annual consolidated and certified final accounts in the Stock Exchange official bulletin. The Committee should also provide the Stock Exchange or any of its branches with all the

related information and detailed documents, within a fifteen-day period as of the date of publication or entry into force of these documents. Referring to Mr. Y., conflict over the consolidated accounts took place between the committee and Holcim and Ciments Blancs as the companies initially refused to submit such documents because it is very costly to produce them. However, things went back to normal after both enterprises accepted to follow the directives of the BSE. According to Code 158: The Stock Exchange publishes in its official bulletin the daily volume of the direct transactions taking place outside the Stock Exchange such as those related to securities, and the average registered price, etc. According to Mr. Y. and our anonymous external auditor Mr. B., enterprises rely only on external auditors to release reports.

5. DISCUSSION

In the light of our results, we can say that the primary conflict in our case is between the non-financial enterprises and the BSE. The main problem is rooted in BSE playing the double role of the marketer and the controller. This double role leads to a conflict of interest for the BSE, which is neither willing to impose restrictions nor require obligations from the enterprises. A clear distinction should be observed between these two key roles. Things are now changing with the Capital Market Authority (CMA)³⁴, especially since it will be playing the role of the controller in the near future, leaving marketing for the BSE members. The key mission of the CMA role is to implement necessary decisions and regulations to “*instill transparency and boost investors’ confidence in the market through ensuring that the regulatory framework is on par with international best practices. The Sanction Committee has the authority to impose sanctions and monetary penalties upon the violation of the Capital Markets Law*” (CMA, 2016).

Firstly, the situation at Holcim and Ciments Blancs is rather close to the Moral hazard that arises between the principles (Investors) and the agents (managers). As for Rymco, results are more favorable to the stewardship theory. However the conflict is still obvious since there is no audit committee and only mandatory information is revealed, hiding some valuable information not only from competitors but also from minority shareholders. In both situations, the agent has more information about the real situation of the company, while the investor is blinded by the restricted information released to the BSE by the external auditors. Therefore, we can relate this situation to what we will call “*The Governance Myopia*”, where just part of the information is revealed. Against all readings, the conflict of interest in the governance of the corporations in Lebanon is not only between the principal and the agent (Ross, 1973; Jensen and Meckling, 1976), but rather between the corporations and the BSE. And that has its own purposes. Therefore we can say that H1 is not valid. The conflict of interest is approximately the same in non-Family owned Business as in Family-owned Business. We just have to define what we mean by “Principal” and by “Agent”. Misinterpretation can lead to errors. Moreover, the non-financial enterprises like

Holcim and Ciments Blancs do not care if they are affiliated to the BSE or not, since they are already affiliated to the International Stock Exchange. Therefore, the BSE finds itself trapped, since it has obligations towards the public sector and the ministry of Finance.

Secondly, considering the transparency of the companies, we realized that the main problem is not in the quality of information but in the selection and filtering of this information. The released information is not completely opaque, as described by Jin and Myers (2006). In addition, in order to protect their jobs, managers have a bigger tendency to conceal bad news, as reported by Jin and Myers, (2006). This explains why some managers are revealing only 50% to 60% of the information, as told by Mr. Y. According to him, this can increase risks (Rajan and Zingales, 1998) and opportunism (Bushman and Smith, 2003). H2 is therefore not valid, since H2 proposed that the more financial opacity, the bigger the conflict inside the company. The conflict at Holcim and Ciments Blancs is not only inside the company, it is rather outside of it, since the results of our study revealed that it is between the corporation and BSE. Moreover, information is not opaque. Some is simply hidden; other is selected and filtered according to managers’ opinion and decision. A greater risk can come from the filtering of information. As for Rymco, the duality between shareholders and top managers leaves the corporation with unique challenges. Commitment to Business can be considered as an added value. However, investors may be more prudent, as the controlling family can abuse the minority shareholders rights due to the lack of transparency and absence of accountability. However, Mrs. A. denied this version, insisting that there is a clear distinction between controlling and managing the corporation.

Thirdly, referring to Burcu and Bengu (2014), and their voluntary disclosure that can enhance transparency as well as reduce the information asymmetry, the study showed that H3 is neither accepted nor rejected. The acquired information was not adequate to make a conclusive decision regarding this hypothesis. We found that the enterprises concealed a lot of significant figures, and they only diffused mandatory data, therefore the bulk of information is incomplete. Therefore, Yasser Akaoui’s grade is not valid. When administrating an “F” to the enterprises, he neglected the fact that the information is not wrong, but hidden and not transmitted to BSE, investors, minor shareholders, and stakeholders.

Fourthly, the BSE is controlled by the enterprises and not the other way around. The main reason behind this comes from the fear of losing potential position in the MENA Exchange Market, doubled with the fear of losing potential investors. All these reasons weigh heavily on the people in charge of the BSE in Lebanon, forcing them to choose the “Laisser passer” way. Referring to the soft Law when dealing with the companies, the BSE is not putting restrictions nor requiring obligations from the enterprises. Between complying with the principles of good Governance or explaining “why not” as described by

³⁴ Established under Law no. 161 on the 17th of August, 2011, the Capital Markets Authority (CMA) became operational by virtue of the Council of Ministers’ decision dated 07/10/2012.

Rapp et al, (2003), companies prefer to follow the principles of Governance their own way, balancing between both. Flexibility is observed to lead to better governance. Deviations from the rule without fostering investors' trust, is also observed, which recalls Arcot et al, (2005) study. The authors were right when they argued that soft regulations do not solve governance problems. The Economic and political situation in Lebanon is not helping the BSE to impose the "hard Law." To avoid conflict, and to win more ground, the BSE is accepting compromises. H4 is therefore not valid. It is true that the need of establishing good corporate governance is bigger in a country adopting the soft laws. However, the obstacle of implementing such governance is due to such soft Laws, which reciprocally trap the Stock Exchange and the enterprises.

Fifthly, The Headquarters of both companies Holcim and Ciments Blancs are in Switzerland. According to all interviewees, both companies follow the principles of Corporate Governance to the letter in Switzerland, whilst not in Lebanon. The bad Economic and political environments led to lack of incentives for companies to release all information. This resonates with Sandeep et al, (2002) results, showing that the Middle Eastern emerging markets have limited transparency. Therefore, H5 is hence validated since Transparency of information is highly dependent on the country in which the firm is located.

6. CONCLUSION AND LIMITATIONS OF THE STUDY

Corporate Governance is a recent phenomenon in Lebanon. Mostly complicated because of the regulatory and legal obstacles, the challenge of the non-financial enterprises is big, since there is a lack of credible commitment on their part. What makes it more complicated is that all dysfunctions are related to those of the BSE, whose presidency has been vacant since the departure of Chairman Mr. Fadi Khalaf in 2008. An interview with Mr. Khalaf revealed that the BSE *"doesn't have enough companies listed. Listing implies fiscal taxes and transparency, and in Lebanon, companies keep several books. If companies list and don't disclose their entire income, their stock price will be hit. If they disclose their income, then they have to pay taxes. So some companies will avoid listing"* (Sioufi, 2011). Hence, the reasons for not revealing all information is threefold: the first is avoiding taxes, the second is hiding weaknesses from investors and stakeholders, and the third is keeping complete control over financial statements. Fixing a new Tax Code in Lebanon will help more companies get listed on the BSE. A reform of the tax code makes it simpler and fairer for everyone, along with an increase in the standard deduction, which can make it easier for Lebanese Corporations to bring more investment funds to Lebanon. It should also motivate small businesses to grow into large businesses and get the benefit of strengthening the whole Lebanese economy.

Due to increased competition in the financial services industry, all countries even emerging ones, are making efforts in order to modernize their

financial institutions and to reform their trading systems in the Stock Exchange. One of these efforts is the privatization of the Stock Exchange. For example Kazmi's paper (2015) on the consequence of privatization through Stock Exchange revealed that the Stock Exchange gives an avenue for the government to introduce more products and to fund long-term schemes/projects by the revival of the privatization program. Referring to Mr. Khalaf, *"Privatization will give the exchange independence from politics. The private sector is the driving force in Lebanon. Privatizing the exchange will give it a boost but it is not the key factor; if companies are not convinced of listing, privatizing... it is not going to change anything"* (Sioufi, 2011). This implies two obstacles: one related to politics, another to the unwillingness of the companies to become real players in a tough risky game.

The adoption of soft laws and regulations requiring compliance, transparency and disclosure has two major consequences. On the one hand, it can help the BSE ensure better communication and better stability of the relationship between both parties. While on the other hand, it can have a negative impact on the transparency of information and hence on corporate governance. The reasons behind the weakness of the BSE are mainly the results of the following: 1/ There are no laws or regulations that require companies to have good corporate Governance. The law only requires from corporations to file accurate data on time. Therefore Good Governance in companies is a voluntary act; 2/The law cannot impose on a corporation such as Rymco to create an audit committee. Top managers can therefore run the company in any way they want as long as they are committing no fraud and they are being transparent.

As a response to all this, the following is noted: 1) It is true that the corporate Governance can be considered as a voluntary act, but firms can have significant incentives to adopt it. Among different reasons, their incentives may include the competition for scarce capital, the willingness to remain competitive with their peers, and mostly the need to diffuse information. As a matter of fact, it is relevant that the companies cannot diffuse information abroad, while withholding it in Lebanon. Such practices can negatively affect the market noise and the investors' choice. As a result, the need for positive disclosure of governance practices is high. It prevents devaluation of the firm by the market, which subsequently means that the corporation has to stop "complaining" and "explaining" and start "complying" with the principles of good Governance, since listing in public exchanges can lead to higher evaluation of the company and more return for owners; And 2) The BSE is aware that an audit committee for Rymco would provide a split between management and outside auditors, and would ensure more fair and accurate financial statements. The BSE is also aware that by playing the role of a whistleblower, the audit committee can better detect and correct fraud³⁵. Instead, the BSE has chosen to do "No Action".

³⁵The importance of the whistleblowers comes from the fact that the companies' Audit committees are impacted since that they are charged with "establishing procedures for: 1/ the receipt, retention and treatment of complaints received by the issuer regarding accounting, internal accounting

controls or auditing matters, and 2/ the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters" (SOX § 301, Public Company Audit Committees, Title III).

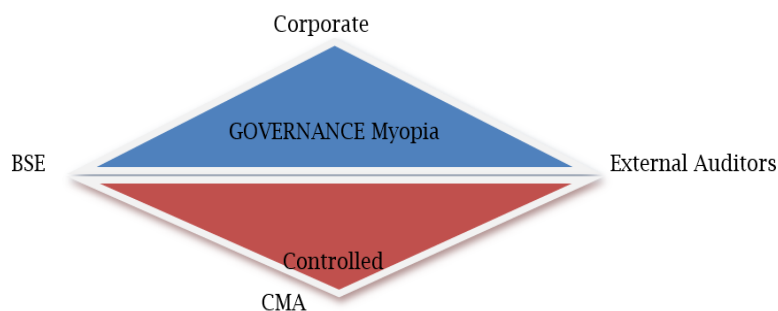
This study covered the Governance topic in the non-financial corporations in Lebanon. It evaluated the ongoing processes between three different parties: the non-financial corporation, the BSE and the external auditors. It consequently stressed the urgent need of another party involvement, namely the CMA. It also illuminated the urgent need of implementing rules and procedures properly, in order to better ensure controlling the corporate principles. According to Mr.Y., things will be subject to change in 10 to 15 years, as he is confident of the BDL governor's excellent monitoring and supervision. As any regulatory organization, the mission of the CMA would be to "support just and equitable principles of trade, encourage free and open markets and protect investors and the public interest... writing and enforcing rules governing the activities of listed corporate, examining firms for compliance with the rules, educating investors and fostering market transparency"; which means that the CMA's mission will be the same as any International self-regulatory organization, such as NYSE, the NYSE Arca Equities, the FINRA or others (NYSE, 2016).

The study of the listed corporations at the BSE, revealed the identification of "Governance Myopia", where part of the information for a better transparency and governance is explicit while another

part is intentionally withheld. Selecting and filtering only necessary and mandatory information can leave doubts about who is really governing the Corporation, and what type of principles are really adopted. Needless to say that "Governance Myopia" will be serving both parties, since it is built on compromises.

Moreover, the public companies listed on Stock Exchange have the responsibility to be totally transparent with their shareholders and their stakeholders, to operate in a non-fraudulent and non-deceiving manner, and to ensure a better dissociation between the owners and the Board functions in Family-owned Businesses. The problem is that such Businesses can face a set of management challenges deriving from the overlap of family and business issues, which can increase "Governance Myopia". The figure below can explain how to better control "Governance myopia" through the implementation of the CMA directives, by encompassing the roles of all four actors: The Corporate, the External Auditors, the BSE and the CMA. Governance principles exist in Lebanon but are not fully implemented, leaving doubts around transparency, good guidance and decision-making inside the corporate. A better implementation of the principles through the CMA directives is required.

Figure 1. Controlling "Governance Myopia"



This article has its limitations. Firstly, we note that for the purpose of the initial understanding of the subject, we used exploratory analysis since the number of non-financial corporations is limited to 3. For further research, we recommend the application of a Qualitative Comparative Analysis (QCA) method in order to support the findings. Secondly, there was no adequate support to either the "agency theory" or to the "stewardship theory" and thus the obtained results were mixed. However, this research did not set out to find out which theory is more valid, but rather to uncover that by using the words "Principal" or "Agent", a better definition is needed to indicate who is really meant by each word, otherwise a misinterpretation of the definitions of theories may result. In the end, this research opens doors for further studies.

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