

# CORPORATE GOVERNANCE AND CULTURAL DIVERSITY IN LEBANESE BANKS

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## Abstract

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This study's scholarly significance lies in its exploration of the intricate connection between culture and corporate governance within Lebanon's banking sector. Utilizing Hofstede's established cultural dimensions model and employing a rigorous qualitative research methodology, the study investigates ten Lebanese banks, delving into specific cultural elements like "wasta", social belonging, and quota. It uncovers the complexities of Lebanon's cultural landscape, revealing that a uniform corporate governance model is unsuitable due to its cultural diversity. The research advocates extending Hofstede's model to incorporate Lebanese-specific cultural dimensions, such as *wasta* and group affiliations, recognizing their pivotal roles. By addressing these cultural nuances, the study contributes to both academia and practical application within Lebanese banks, enhancing our understanding of corporate governance and cultural diversity in a concise manner.

**Keywords:** Culture, Corporate Governance, Hofstede, Banking Sector, *Wasta*

**Authors' individual contribution:** Conceptualization — D.N.D.; Methodology — D.N.D.; Formal Analysis — D.N.D.; Data Curation — C.J.T.; Writing — Original Draft — D.N.D.; Writing — Review & Editing — C.J.T.; Visualization — K.N.

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## 1. INTRODUCTION

The scholarly relevance of this study lies in its recognition of culture's influential role within organizations, aligning with established scholarly discussions in organizational studies. It underscores the significance of understanding and analyzing culture's impact on organizational phenomena, a key area of research interest. Moreover, it reviews previous studies on environmental factors affecting corporate governance, contributing to the broader field's scholarly discourse. The text's acknowledgment of Lebanon's unique cultural and political context, along with its interdisciplinary approach that considers culture from both anthropological and organizational angles, adds depth to the scholarly exploration. Finally, by providing a contextual overview of corporate governance, its dimensions, and the Lebanese banking industry, it sets the stage

for further scholarly investigation in these areas, making it a valuable resource for researchers interested in studying the cultural and political factors influencing corporate governance in diverse settings like Lebanon.

Culture plays an influential role in organizations while developing and implementing myriad decisions and actions (Tharp, 2009). The prevailing idea of an organization along with its values, beliefs, and attitudes, assists its employees to feel, think and act, often unconsciously, and it is here that understanding culture assumes the utmost importance, acting as fundamental to describing and analyzing the organizational phenomenon. In short, culture as a glue, holds an organization together, and as a compass, provides direction to functioning (Tharp, 2009). Different environmental factors influencing the implementation of corporate governance in organizations across the world have

been studied, primarily among them being social, cultural, political, and legal issues (Young & Thyl, 2008; Christopher, 2010).

Lebanon has a rich cultural and religious heritage, which has influenced the organizations and, subsequently, the performance of different industries and sectors. Consequently, the Lebanese culture, along with the political beliefs of the nation, could have a significant impact on its corporate governance policies and frameworks, thereby impacting the regulations imposed on its industries. Hence, in view of the three significant elements associated with the study (culture, corporate governance, and the Lebanese banking industry), the present section presents a brief overview of the concept of corporate governance, its varied dimensions, the relationship between business and culture (both from anthropological and organizational perspectives), and the Lebanese banking industry.

Following the brief introduction of the concepts, the problem statement on the issue at hand has been explained, giving way to the development of the aim and objectives of the study, its research questions, some expected findings, limitations of other studies, and description of the relevance to the context and overview of the methodology, suggesting the way through which the problem statement will be dealt, and the research questions answered. This study highlights the dominance of centralization in decision-making among Lebanese banks' staff, although senior managers and board members, considered that banks are promoting participative management among their employees. It also shows that Lebanese bankers prefer to work within a team, instead of working on an individual basis. They avoid risk through the formation of risk and corporate governance committees, and through abiding by the circulars issued by the Lebanese Central Bank. This study proves that the Hofstede model is not enough to identify the impact of the nation's culture on corporate governance inside Lebanese banks. Hence, other cultural characteristics that are peculiar to Lebanon, such as "*wasta*"<sup>1</sup>, quota, and belonging to particular social groups, should also be considered.

Although board members deny the existence of *wasta*, it is affecting the recruitment, selection, and remuneration process, according to the majority of respondents. The results of this study pinpoint a higher degree of comfort and better productivity when subordinates belong to a particular social group. This was, on average, the general perception of the subordinate employees, which connects with the Hawthorne effect, which reflected workers being affected by their social environment over their individual capabilities, in exerting productivity (Adair, 1996). On the contrary, senior managers and board members gave little importance to belonging to a particular social group, as having an impact on their job satisfaction and performance.

In the face of this economic crisis, Lebanon is in dire need of foreign direct investment (FDI) to boost its economy and trade, as well as the banking system. However, government bureaucracy and lack

of transparency in the cultural practices of Lebanon, have created a hostile environment for foreign investors. Hence, the main research question of this study is:

*RQ: To what extent do existing models and frameworks of corporate governance and culture (Hofstede), make sense in Lebanon?*

The structure of this paper is as follows. Following the introduction in Section 1, a literature review will be addressed in Section 2, followed by research methodology in Section 3, research results and discussion of the findings in Section 4. Finally, Section 5 will conclude the paper.

## 2. LITERATURE REVIEW

### 2.1. The role played by culture within organizational functioning

#### 2.1.1. The role of culture in affecting employees' behavior

Culture has been associated with the practices followed by the group of people, organizational culture strives to improve collaboration among employees and improve group efficiency, which, according to Shahzad et al. (2012), leads to the enhanced job performance of employees. Apart from better performances, culture as a flexible tool, has also been observed to have influential effects on strategy building and implementation (Ahmadi et al., 2012). A flexible cultural approach undertakes continuous changes in the external work environment and therefore proposes up-to-date implementation strategies to business organizations. In connection with the benefits visible in maintaining a culture within organizations, a manager's role has also been an eminent area of study worldwide. According to Kane-Urrabazo (2006), a manager's efforts towards maintaining culture are based on four basic cultural components, which are critical to undertake while making any policy move, namely: trust, empowerment, consistency, and mentorship.

#### 2.1.2. Hofstede's dimensions of culture and their inductive creation

The relevance of Hofstede's study on cultural dimensions in exploring the culture and corporate governance in the Lebanese banking sector stems from the fact that the Hofstede (1980) model is the most widely used and gives the opportunity to evaluate how differences in culture might affect different behaviors. Details about Hofstede will be discussed later.

Geert Hofstede conducted a very comprehensive study on the cultural influences on the workplace. The Hofstede model of culture is multi-focused and was proposed as a strategic tool for constructing organizations to be more efficient. The cultural theory according to Hofstede, stems from the six different dimensions, namely: power distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance, long-term orientation vs. short-term normative orientation, and indulgence vs. restraint (Dartey-Baah, 2013). These dimensions were created inductively with survey data, rather than deductively, with anthropological theory because they do not offer a whole view of cultural variances; they just represent differences

<sup>1</sup> *Wasta* is a popular Arabic word referring to a social custom that is widely practiced, involving an intermediary who either reconciles conflict (intermediary *wasta*) or secures a goal (intercessory *wasta*), with the latter being the dominant one in modern society. As such, it can be viewed as an informal network (Helal et al., 2023).

that have been explored. This means that if other differences are found, they can be added to Hofstede's model. This occurred for the first time in 1985 (Whalen, 2016).

## 2.2. The role of Hofstede's cultural dimensions in shaping corporate governance in the banking industry

### 2.2.1. Cultural aspects of the banking sector

In accordance with the aim of the study, corporate governance practices within banking institutions are supposed to have a cultural impact and would therefore, have significant associations with the cultural orientation of organizations. Reviewing the cultural aspects of the banking sector in terms of Hofstede's theory of cultural dimensions, this section intends to present an empirical investigation of the same, for its noticeable impacts on corporate governance.

With respect to the Lebanese economy, Chahine and Safieddine (2011) studied the country's banking sector to evaluate the need and performance of corporate governance law. In the study, the authors performed a statistical analysis to understand the impact of corporate governance on banking performance, through its composition of roles and responsibilities. To carry out the analysis, the research undertook the data of 749 Lebanese banking organizations, over a span of 14 years, i.e., from 1992 to 2006. The data pertained to an overview of the operations and the performance of the organizations, annually. Since the role of corporate governance in banking organizations reflects the financial performance of banks, the research considered return on assets (ROA) and return on equity (ROE), as the main factors representing their performance.

### 2.2.2. Impact of national culture on banking

Upon these findings, this study would lastly address the national culture of a country, as another factor affecting banking behaviour. Ashraf et al. (2016) based their study on assessing the role of Hofstede's cultural dimensions' effect on the banking system. The study has taken the risk-taking behaviour of the banking system into consideration. To this end, they have observed the condition in 75 countries, in the form of 75 organizations (1 per country). The study is based on the pre-crisis period (2001–2007), and the factors undertaken were three of Hofstede's cultural dimensions: power index, individualism, and uncertainty index. Through cross-sectional regression analysis and robustness techniques, the researchers carried out the analysis of selected banks, based on the factors mentioned above.

The results from the analysis were significant and clearly indicated a positive association between banks' risk-taking behaviour with individualism, negative with uncertainty avoidance, and power distance. For power distance and uncertainty avoidance, the research showed that it is not restricted to bank employees. As an important implication of the study, the results found it

relevant for financial scholars to conduct research on the modification of risk management operations. Also, the inclusion of cultural factors in banking organizations showed to be critical in globalized work environments.

## 3. RESEARCH METHODOLOGY

### 3.1. Methodological approach

The work reported here is founded on an interpretivist stance, which implies the ontological assumption that reality is subjective, and the epistemological assumption that the researchers interact with that which is being researched (Collins & Hussey, 2003). Although interpretivism is addressed by different theorists, the meaning remains the same among those who consider that "reality is socially constructed".

A key factor influencing this chosen method includes the ability to analyze data in depth and from the point of view of the individual. Also, participant observation helps to understand the behaviour of the studied group, by doing the same things and being always in their atmosphere. Another factor was that interpretivism is used when the goal of the research is to identify the way in which situational and cultural variations shape reality, especially when there is no single reality, but it differs from context to context (Myers, 2013).

"[T]he interpretative position holds the basic assumption that social phenomena are of an essentially different order from natural ones. They are not objective, external and preordained but socially constructed by individuals" (Schneider & Ingram, 1993, pp. 42–43). Moreover, Easterby-Smith et al. (1991) described interpretivism as "the idea that reality is socially constructed rather than objectively determined", implying that the task is "to appreciate the different construction and meanings people place upon their experience" (Easterby-Smith et al., 1991, p. 24).

### 3.2. Thematic analysis

Thematic analysis has been conducted by segregating the interview responses into Hofstede's cultural dimensions, to understand the extent of the influence of national culture in shaping the organizational culture, as well as the corporate governance practices including elements of accountability, disclosure and transparency, competency, confidentiality, and independence. It is important to mention that the chosen banks for this study are local and among the largest 10 banks in Lebanon.

With such a purpose, the entire analysis section has been divided into various themes, namely: decision form, team spirit, uncertainty level, and other socio-cultural aspects such as *wasta*, belonging to a particular social group (independence), and auditor choice. These themes were manually identified through the codification of the interview responses, collected by using three different sets of questionnaires for employees/managers, the board of directors, and external auditors. Furthermore, the interpretation has been carried out by organizing the responses of each theme into three participant groups (employees and managers, board

of directors, and independent auditors). The thematic nodes, established following Hofstede's cultural dimensions, as reflected from the participants' responses, and connected with the corporate governance practices, are presented in the below paragraphs considering the relationship between the organizational culture and the national culture, in understanding the corporate governance structures of the Lebanese banking sector. Every segment, or step, within the framework is closely related, with the national and organizational cultures having important dimensions, that would be vital in understanding the five corporate governance structures.

#### 4. RESEARCH RESULTS

##### 4.1. Decision form (Power distance)

From the interpretation of the responses from all the 20 employees, engaged in a subordinate position within the banks, reflection can be made of the presence of a common perception of how decisions are taken between themselves and their managers. A large percentage of participants, from managers and employees, consider that a rigid hierarchy dominates and that they can barely participate in decision-making. High power distance cultures, such as in Arab countries (Robbins & Judge, 2011), prefer strong authority and rigid hierarchies because they help to maintain the existing social order and its related distribution of power (Hofstede, 1980). These results respond implicitly to the main research question, revealing the effect of culture in Lebanese banks, based on a rigid hierarchy of governance structure dominated by a centralization management. This culture has contributed, to a great extent, to developing a code of corporate governance that specifies the way authority is allocated, and how corporate decisions are made. Although there are differences in the opinions of some of the managers on centralization, like that of Mr. H2, who insists:

*"Where there is no strategic issue such as accidental overdraft or exceptional pricing, the officer can decide on his own without referring to the above supervisor. Also, client visits are decided by the officers. Moreover, recruiting new clients within bank's procedure are decided by officers alone. In addition, portfolio advisory within the client's profile is done by the officer alone. So we are more towards decentralization, we are more concerned about the fact that our employees take decisions without referring to the above managers or*

*heads, for example pricing in terms of credit or debit interest rates, commission, fees, spreads are on the hands of the officers solely but within a certain limit".*

However, from most of the responses towards a centralized decision-making process, it is understood that a bank's organization is highly shaped by the nation's culture within which the bank operates. If the nation's culture is based on centralization, for example, which is the case of the research study, then the organizational chart will be vertically oriented, and a distance between managers and employees should take place. This was clear from the answer of one of the interviewees when he was asked whether the communication process is conducted horizontally. He said:

*"It's horizontal if we are assigned a certain project or work that we have to finish by group but if you mean communication process for taking decisions, there is no lateral communication, but head of department gives orders to head of units and in their turn head of units give orders to their employees. To sum it up, here we have centralization and maybe it's related to the Lebanese national culture".*

The implications of the results on corporate governance are that they enforce the implementation of corporate governance rules and regulations and make hierarchy essential for decision-making. Mr. R3, the branch manager of Crédit Libanais, expressed:

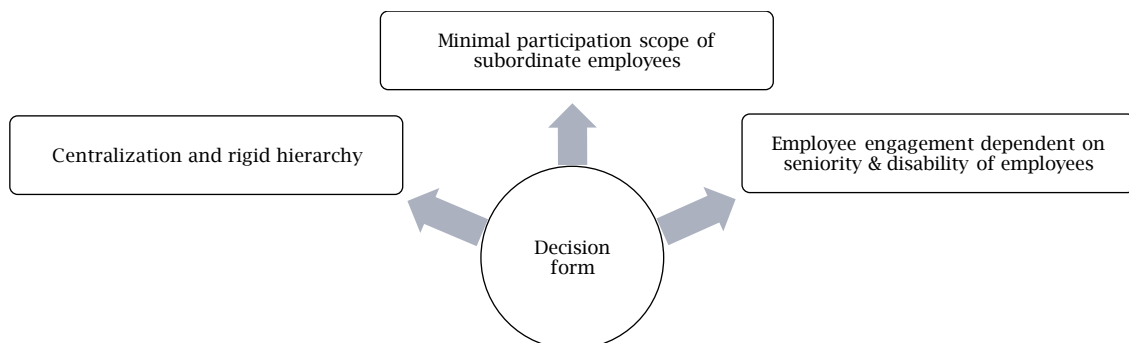
*"Most decisions are taken by the upper management or the direct boss in a certain unit or section. It's well known that there is a rigid hierarchy in banks and several layers exist ... none of employees can take decision beyond his/her position, there is hierarchy that shall be respected, and major decisions are concentrated on the top".*

A similar view was expressed by Mr. A1 (engaged as a board member and audit committee chairman of Banque Libano-Française), according to whom, employee involvement in decision-making is largely dependent on the seniority of the worker, in terms of their position and responsibility:

*"... majorly it is the general managers, leaders and departmental heads/managers who are mostly engaged with the process of decision making over the specialized employees and general executives. Besides seniority, age of the employee, their disabilities (if any) and caring responsibilities also matter in their degree of engagement".*

The main elements of the "power distance" dimension of Hofstede's model, have been depicted in the figure below.

Figure 1. Elements of power distance in the Lebanese banking sector



Source: Authors' elaboration.

#### 4.2. Team spirit (Individualism vs. collectivism)

Team spirit reflects the intensity of collectivism and individualism, in the working of the bank's personnel. Theoretically, Lebanon exhibits four different "cultural syndromes" of horizontal and vertical collectivism; and horizontal and vertical individualism, largely depending upon the socioeconomic background, such as age, gender, occupation, income, and location (Dirani, 2008). However, the primary observations denote a different avenue, where, the operations within the case of Lebanese banks, are dependent on teamwork through the coordination of each employee with his/her co-worker, superior, and subordinate, to achieve daily tasks. The reason behind this large presence of collectivism is owed to the statement of the "Review of the Legal and Regulatory Framework Pertaining to the Corporate Governance of Banks in Lebanon" (IFC, 2005), on the collective responsibility of the business units, risk management teams, internal audit, and control functions, along with the shareholders. This represents a pre-defined minimum percentage of the share capital, in participating in the internal governance for averting risks. Reflecting on the response of Ms. L2, employed as a Loan Officer in BLOM Bank:

*"I personally feel more comfortable and motivated if I work by group but sometimes, I am obliged to do my job by myself without being part of a team due to the nature of the job".*

It is observed that, on a personal front, employees are more prone to collectivism, matching Hofstede's cultural dimension scores. However, working in collective groups is not always the case, as is reflected in her opinion, hence to a certain extent, denoting the presence of individualism. Managers' responses also exhibit an environment of collectivism in driving internal functioning, for instance, Mr. W2, of Byblos Bank, noted:

*"On weekly basis meetings are scheduled just to exchange ideas and experiences between officers,*

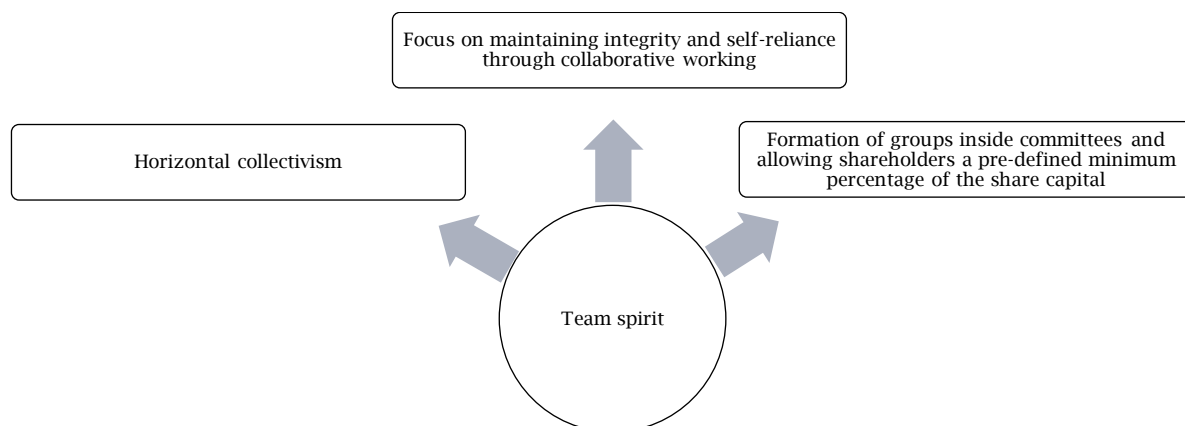
*to discuss market conditions as well, to select products of the week to be offered to clients and an update on products and services offered by local competition are also discussed. For some specialized customers an investment advisor will assist with the private banking officer".*

Boards, through their audit committees and management teams, play a crucial role in the control environment, which includes the system of internal and external auditing (International Financial Corporation [IFC], 2016). Therefore, collective teamwork between the board and independent auditor is essential, to oversee the progress and implementation of a suitable internal control system. Management teams, on the other hand, enable establishing and maintaining, adequacy and effectiveness in internal control systems, hence, depicting the urgency in the collective accomplishments of responsibilities. However, in terms of collectivism among management systems, board members, and employees, one of the directors of BLOM Bank, Mr. M5, opined:

*"Too many opinions and ideas will not lead to a good result since each person has his/her own way of looking at issues and has his/her own way of solving the problem. So it's better that every person to have a specific work to do so that it can be completed from A to Z without interruptions and distortion of ideas".*

As for the results' implications on corporate governance, it makes every person responsible and accountable towards achieving the set goals and objectives, through business unit formation and through risk management teams. This fosters and protects, the participation of the largest number of people in goal setting, including the minority shareholders, who are given the right to submit written questions related to the bank's operations, to the board of directors (IFC, 2005). The main elements of the "team spirit" dimension of Hofstede's model, are depicted in Figure 2 below.

**Figure 2.** Elements of team spirit in the Lebanese banking sector



Source: Authors' elaboration.

### 4.3. Uncertainty level (Uncertainty avoidance and long-term orientation)

In terms of orientation with the past, to avoid uncertain and challenging situations, Lebanon projected a normative culture, meaning sticking to stringent rules irrespective of the changing environment, until the turn of the millennium (Bierbrauer, 1992). However, in the contemporary period, the Arab nation reflected a transition from normative to pragmatic, purporting to safeguard its polity and economy, from the threatening regional environment (Ginat, 2010). Therefore, it will be interesting to see what the representatives of the 10 case banks reveal, thereby clarifying their stand towards uncertainty, through dealing with the dynamic market environment. When asked about the control environment after decision-making, for mitigating risks, Ms. S3, the branch manager of Bank of Beirut S.A.L., revealed:

*"Lebanese banks are complying with international standards set by Basel III and the Central Bank developed a code of corporate governance for the Lebanese banks to reduce risk .... Each file is being controlled, assessed, and checked by an external party being the internal and external auditors. Their comments cover the perfect implementation of the committees' decisions, in case their audit report does not mention the breach on the decision that will be reported directly to the management. Also, it's worth mentioning that the banking control commission under the direct supervision of the central bank is doing its due diligence on a yearly basis. The Lebanese central bank issued the Circular No. 122 in 2009 to banks stating in Article 2 that each bank operating in Lebanon shall appoint two audit firms for auditing its accounts jointly and severally".*

The above response greatly emphasizes their compliance with the norms of the Central Bank of Lebanon (*Banque du Liban* — BDL), in dealing with uncertainty, and thus has been able to maintain an impressive degree of resilience, along with continued growth, in the wake of domestic and external shocks. Auditors, when asked about their role in managing the uncertainty level of the client organizations, and about the mandate they follow while carrying out the concerned function, Ms. A6, from *Société Générale de Banque au Liban* (SGBL), echoing her counterparts' opinions, responded:

*"We usually play a twin role within the client organizations — a private role and a public role, acting as a watchdog on the internal control systems of the organizations. This work of ours of intense judgment based supervision when adequately coordinated with the regulator through advanced and efficient allocation of regulatory resources, the dynamic environment of political and financial crisis can be averted".*

Following the audit committee mandate, Mr. A5, associated with Fransabank, stated:

*"Yes, the concerned bank does follow the audit committee norms defined by the Central Bank of Lebanon (BDL) in maintaining effectiveness and efficiency of internal control regulations and assesses the performance of the unit and unit head along with associated areas based on the report we provide, to a large extent".*

The response thus gained shows regular external audit assistance of the case banks, which enables them to handle the uncertainty level. In terms of corporate governance practices, external auditing, along with internal auditing, enables the banks to avoid threats of independence and familiarity, largely exercised by the internal auditors, since external auditors seldom have the chance to know a person within the client organization (Association of Chartered Certified Accountants [ACCA], 2015). Besides this, external audit provision, and its resultant threat avoidance, leads to enhanced confidence of the investors and regulators, owing to direct reporting of the external auditors, with the regulators. Lastly, the external auditors, as consultants, are likely to be more knowledgeable on the recent market dynamics, than the internal auditors, since they promote themselves on the basis of the currency of their skills, unlike the latter, whose skills are essentially shaped by their organization's needs and expectations (Kassem & Higson, 2016). As Mr. B1, a sales consultant associated with the Bank of Beirut S.A.L., noted:

*"... After years 2006-2007 changes occur due to the issuance on new circulars by the Lebanese central bank and the launch of the new code of corporate governance for Lebanese banks which fostered the formation of audit committee, nomination and CG committee and the remuneration committee, comprising of independent and non-executive members along with the internal staff".*

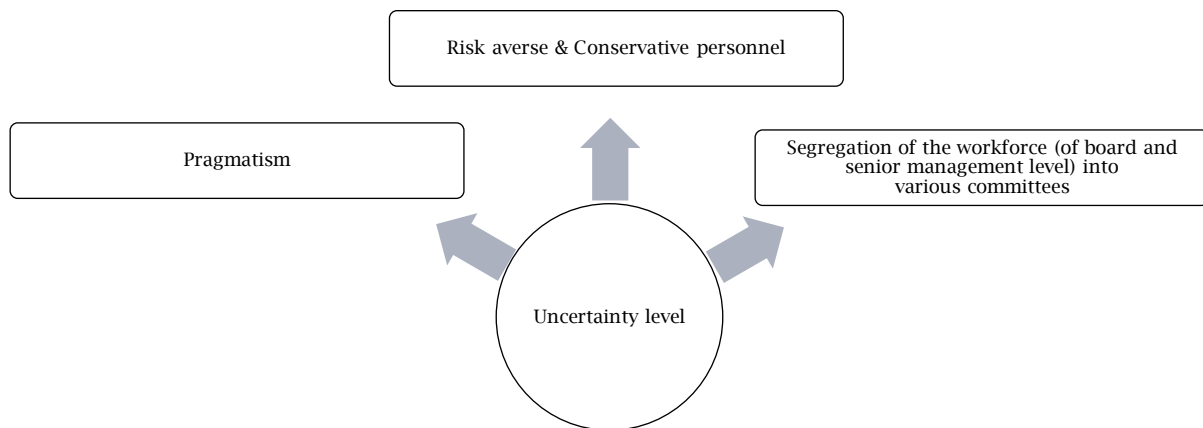
This response essentially justifies the claim of the bank managers, on the compliance of the banks with the BDL, norms of corporate governance. On the stringent control and evaluation of the company decisions in maintaining the uncertainty, Mr. A2, of the Bank of Beirut and the Arab Countries (BBAC), asserted:

*"The audit committee in conjunction with the remuneration committee works on assessing the results to clearly identify compensation and remuneration packages. Also there exists external auditor responsible for reviewing the financial statements and deals with everything related to control environment. Besides, after the implementation of Basel III norms, the authority to approve loans of amount higher than USD10,000 went into the hands of the risk department, instead of the branch manager. This is done to reduce risk and it's our job to make sure that it's properly executed".*

### 4.4. Discussion of results

Overall, the above response presented the case that bank personnel are risk averse, and prefer to be conservative, to mitigate risk. Committees are vital to the Lebanese banks' operations and mitigation of risk. Lebanese banks are obliged to form committees, in accordance with the code of corporate governance, launched by the Association of Banks in Lebanon (ABL) and the IFC. The Banking Control Commission's role, is to monitor corporate governance practices, and take corrective actions, whenever there is any deviation (IFC, 2005). Most importantly, the BDL, as a backbone of the Lebanese economy, attempts to protect the banking sector by enforcing the formation of different committees, in order to mitigate risk (Hejeij, 2015; Pellegrini-Bettoli, 2016).



**Figure 3.** Elements of uncertainty level in the Lebanese banking sector

Source: Authors' elaboration.

These results depict the banks' organization as being dominated by a management run by committees and external parties. All personnel, including the managers and auditors, consider that committees' formation and external members' interference play a major role in reducing banking risk. The commonality in the respondents' answers, regarding the actions taken by Lebanese banks to manage risk, verifies the launching and implementation of the corporate governance code, which strengthens the guidance on risk governance (Bank for International Settlements [BIS], 2021), and the issuance of new circulars, that ensure good governance. The main elements of the "uncertainty avoidance" dimension of Hofstede's model, are depicted in Figure 3 above.

Belonging to a particular social group can affect employees' engagement, and hence organizations' performance, as is evident from the observation noted by Bono and Judge (2003), that how a person relates to or fits in with his/her environment, has a great effect on his/her behavioral engagement. If an employee feels that his/her social identity is threatened, especially if this identity is a central component of his/her self-concept (Thompson, 1999), he/she is more likely to disengage psychologically or physically, to cope with this situation (Major & O'Brien, 2005). Following the corporate governance norm, the participants were asked about their extent of productivity when belonging to a certain social group, to which Mr. J, on behalf of the employees, responded:

*"... Lebanese people like to belong to a group that have similarities; it can be religious, political, ideological, etc., the reason behind that may be because we are too emotional and we affiliate with people with same characteristics, and may be also because our government is not offering any support or a feeling of security so we find ourselves obliged to find a substitute through affiliating with a trustworthy group ..."*

The above response, therefore, reflected a higher degree of comfort, and chances of productivity, when belonging to social groups. This was on average, the general perception of the subordinate employees, and largely corresponds with the Hawthorne effect, which reflected workers being influenced by their surroundings, over their individual abilities, in exerting productivity

(Adair, 1996). However, other than the subordinate employees, participants belonging to the senior management level, board members, and external auditors, are indifferent to the effect of social groups on their comfort and productivity. As Ms. S4, from Fransabank, reflected:

*"I don't believe that will lead to comfort. For instance, in my case what gives me satisfaction and happiness is the professional environment I am working within and my recognition in my organization. So whether I am working with 'X' or 'Y' group what's the difference? What gives me loyalty and commitment is my development and appreciation"*

Similarly, Mr. R1, a member of the board of directors from SGBL, also echoed the concern of other board members interviewed, by pointing out the futility of the feeling of belongingness to a social group, while performing or gaining motivation towards productivity. Quoting his words:

*"I don't personally believe that belonging to a particular social group will have an impact on comfortability or productivity, it all depends on qualifications and on experience that a person has. For example, in my department, people are from different social classes, different political parties, different sects and religions and they are all happy and productive, their belongingness to the organization is the main drive. Many of them volunteer for extra work without asking for extra remuneration and that because of their commitment to the organization and to the completion of their tasks"*

Coming to the external auditors' perspective, they too, being members of internationally based organizations, are used to working in diverse, heterogeneous groups, so therefore, comfort within social groups is of no concern to them. Besides this, their work within the client organization is external, seldom having the scope or need to exercise personal attachment, rather, it is this lack of any intimacy, that makes their work fruitful in checking the level of transparency within the organizational functioning. As the response of Mr. J echoed:

*"It doesn't matter if we work within a certain group or if we belong to a particular social affiliation, what matters and energizes us is our citizenship and loyalty to our organization and hence driving efficient and effective auditing within the concerned bank .... Besides, belonging to a particular social group*

*within the client organization will be an obstacle in carrying out our core duties in an unbiased way, lacking richness in new ideas and new methodology of doing the work ...”.*

However, within the feeling of social belongingness, another aspect has been examined: the *wasta* system, which is heavily exercised within the Arab nations, making it one of the region's characteristic features. The reason behind including this thematic feature in the study, lies in understanding the role played by nepotism, cronyism, and corruption, within the organizational functioning of the case banks, having a negative impact on the corporate governance practices. Also, such an examination will essentially reflect the degree of influence exercised by national culture on corporate governance norms and practices implemented within the case sector.

The term “*wasta*”, refers to a selection of people belonging to an enclosed circle of trust, defined by the same religion, confession, political affiliation, and/or family (Al Omian & Weir, 2005). In the traditional sense of the term, *wasta* also involved mediation, that united families and communities for better team consistency and well-being, in a hostile and impervious environment (Al Omian & Weir, 2005). However, according to Colli (2003), such networks of assembling families and communities result in market incapacity and uncertainty to guarantee trust for transactions.

To understand the ground reality of the effects of *wasta* in the 10 case banks, questions were put to all the participant groups: employees, branch managers, and board of directors, asking them about the recruitment process, policies, and strategy followed in business model building. External auditors, being an independent group of supervisors looking after the transparency and accountability of the organizations, were asked indirectly about the quota system or *wasta*, through the challenges they face while conducting their function. In response to the question asked Mr. C, as a representative of the employee group, replied:

*“Department or division managers liaise with the HR department and communicate recruiters their needs. Recruitment specialists collect resumes and match them with departments’ needs. As for selection, different tests candidates should sit for ...”.*

The response, therefore, reflects a justified and transparent system of recruitment. This corroborates the assertion made by Budhwar and Mellahi (2016) that Lebanese banks dealt with *wasta*, through the incorporation of psychometric testing of the referred candidates during the recruitment process. Following the procedure, candidates who met the minimum qualification requirements were selected for further consideration by the HR professionals concerned. Nevertheless, the presence of *wasta* is evident in the further process of promotion and appraisal, as Ms. A7, from BankMed, noted:

*“People at our bank are promoted based on their family ties and their connections with any of the shareholders. Qualifications are essential in selection and promotion, but someone has to be liaised with the owner or the upper management in order to get what he/she is aiming for... you cannot call this ‘wasta’ since candidate meets the necessary requirements”.*

However, from the responses to the interviews conducted, the plight of women following the *wasta*, or quota system, is not evident, as they did not show if women gain from, or are deprived, due to the existing use of connections and acquaintances. The above responses present a rather gender-neutral perspective, referring to the acquiring of the advantages of family ties, and liaison with the owner or senior management, by both male and female employees. Davidson and Burke (2016) have noted that women in Lebanon are subject to various prohibitory and discriminatory policies that are followed by their employers, as well as by the law. For instance, Section 27 of the Labour Law, prohibits the employment of women in the industrial sector, nevertheless, the law encourages equality in employment opportunities and payment across genders (Jaoude, 2015). But employers still follow the practice of paying women less compared to their male counterparts, in the absence of serious measures by the government to improve women's participation in economic activities. When the senior management team was asked about the prominence of *wasta*, Ms. C, from SGBL, responded by affirming not only its presence but its misuse as well:

*“Referrals are highly misused in all banks in Lebanon not only at our bank, but those also who are from the same family name of the owner are occupying major positions. In our country it is very easy for the owner to call the human resources manager or other department managers in order to select or promote a certain candidate who belongs to his family, or to his political party, and that happens regardless of if the candidate has the minimum requirements, skills and competencies ...”.*

The culture of *wasta* dominates in the Lebanese public and private sectors. The culture of *wasta* has forced the Lebanese Central Bank to impose rules and regulations on Lebanese banks, monitored by the Banking Control Commission (BCC), where ultimately, Lebanese banks are obliged to increase their private equity even further and make more investments in risk management, and human resources, in order to ensure better governance and performance (Association of Banks in Lebanon, 2018). Interestingly, the board members are in complete denial of the existence of *wasta*, despite the assertions made by the general employees and senior management team. Instead, they exhibit the common practice of “referrals”, playing a vital role in the recruiting, selecting, promoting, and remunerating of employees, under the condition that necessary requirements are met. For instance, as Mr. M1, from the Bank of Beirut, stated:

*“HR sees the CV and they choose the best candidate. Also, referral has a great impact on recruitment and selection. As for promotion and remuneration it's based on sales target achievements and the one who doesn't have missed selling has the advantage to get promoted, so sales agent should have an excellent reputation”.*

Taking offense, another board member, Mr. G, from BankMed, replied:

*“Majority of people think that Lebanese banks select only candidates with ‘wasta’ and which is not true ... many times I receive calls from politicians in order to give favouritism for some candidates they are in good relation with and close to them but my*



answer is always same which is: If they prove themselves in the tests, they will definitely be the first to be considered .... Also we have our website where all jobs are posted and in few cases we use the LinkedIn as a recruitment tool. As for remuneration and promotion, we have KPIs that we follow and those who perform better will be more remunerated and promoted ...”.

Therefore, observations can be made on the vital presence of *wasta*, in banks’ management practices. Politicians, or religious leaders, tend to please their followers to gain more votes during elections, so they benefit from their status to recruit and hire people, regardless of their qualifications. Sometimes, the owner or a shareholder, who is planning to make a political career, also exerts power over the HR specialists to hire the people of his/her choice, usually being from the same village/region or sect. Hence, *wasta* dominates and prevails in the Lebanese banking sector. The denial from the board of directors of the existence of *wasta*, emphasizing referral instead, can be reasoned with their seniority and responsible position. They are the bearers of the organizational functioning and corporate governance practices, and their acknowledgement of the liaison system will pose questions about their position, achievements, and success.

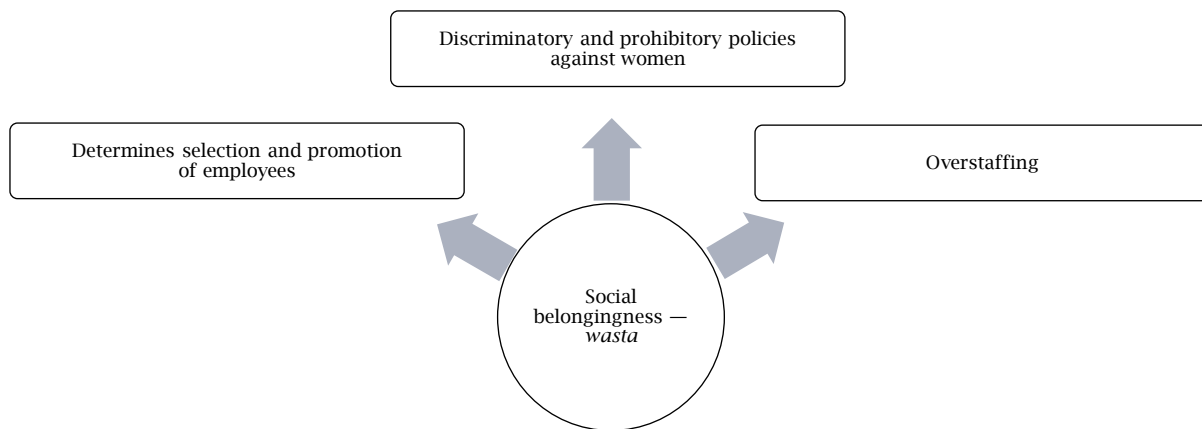
On being asked about the challenges they face in terms of *wasta* within their client organizations, external auditors depicted their limitation in being

present in all of their client organizations, during their recruitment process. Instead, this comes under the jurisdiction of the internal auditors, to report on fraud cases and corruption, if existing within the banks’ functioning (Simpson, 2013). As Mr. A4 noted:

“We are generally brought in to inspect the books presented to us by the senior management or the board committees unlike the internal auditors who are employed by the company or the government and hence their responsibility goes beyond financial attributes”.

The interpretation of the responses reflects an influential role played by the different management practices on the organizational structure, which, in turn, are shaped by the cultural determinants of Lebanon. For instance, the banks’ structure can face overstaffing due to *wasta* practices, such as hiring or remunerating people who do not possess the right academic qualifications, skills, competencies, and experience. The negative implications of these practices on corporate governance were clear, through the issuance of circulars by the Lebanese Central Bank, to ensure a proper and fair remuneration policy based on employees’ performance and productivity, compelling Lebanese banks to invest more in their human resources (Banque du Liban, 2015). The factors making up the *wasta* quota system in Lebanon’s banking industry are presented in Figure 4 below.

Figure 4. Elements of *wasta* in the Lebanese banking sector



Source: Authors’ elaboration.

The interpretation of the responses of the participants, representing the Lebanese banking sector, based on nodes that emanated from elements inscribed within national and organizational culture, reflected the extent to which the norms of corporate governance formulated by the Basel Committee and implemented by the BDL. Analysis of the in-depth conversations revealed the propensity of the 10 case banks towards internationalization, and hence are minimally shaped or influenced by the national culture, measured through Hofstede’s cultural dimensions. Furthermore, despite some of the banks being family-owned, their diverse workforce (except gender), especially at the higher echelons of the organizations, along with many external investors and shareholders, provides a culture with less scope

to spread its influence in the internal control system and functioning. However, this does not mean that national culture has no role to play. The subordinate employees reflect a larger orientation towards culture, in shaping their perception and behaviour, although the leaders, namely the board of directors and senior management team, seldom place any importance on cultural dimensions, like belonging to a social group and other socio-cultural aspects, such as *wasta*. To conclude, the interpretation has reflected the positivity, ensured by the cultural dimensions of team spirit, centralized decision form, pragmatism towards uncertainty avoidance, and collectivism, in making the banking sector, led by the BDL, an anchor of the country’s economic stability.

Schwartz (1999) argued that a survey is not an appropriate tool for accurately determining and measuring cultural variation.

Hofstede's (1980) study assumed nations' populations to be homogenous. However, most nations are heterogeneous, formed of different ethnic groups (Nasif et al., 1991; Redpath & Nielsen, 1997). "Recent research has found that culture is in fact fragmented across groups and national lines" (Jones, 2007, p. 5). Besides this, four or five dimensions are not enough to give information about cultural variances. Hofstede accepts that more dimensions need to be considered in his study (Hofstede, 1998).

## 5. CONCLUSION

This study has revealed that Hofstede's model is not sufficient to explore the impact of culture on corporate governance in Lebanon and that issues like the nation's fragmentation, other socio-cultural factors, such as *wasta*, quota, and belonging to a particular social group, that are peculiar to Lebanon, should also be addressed. A summary of the study's results is discussed in the paragraphs below.

From the interpretation of the responses of all the 20 employees engaged in subordinate positions within the banks, reflection can be made of the presence of a common perception, of how decisions are taken between themselves and their managers. A large percentage of the participants, from the managers and employees, consider that a rigid hierarchy dominates and that they can barely participate in decision-making. High power distance cultures, such as Arab countries (Robbins & Judge, 2011), prefer a strong authority and rigid hierarchies because they help to maintain the existing social order, and its related distribution of power (Hofstede, 1980). These results respond implicitly to the main research question, revealing the effect of culture in Lebanese banks, based on a rigid hierarchy of governance structure, dominated by a centralization management. This culture has contributed, to a great extent, to developing a code of corporate governance that specifies the way authority is allocated, and how corporate decisions are made.

There are differences in the opinion of some of the managers on centralization, however, from the majority of the responses towards a centralized decision-making process, it is understood that a bank's organization is highly shaped by the nation's culture within which the bank operates. For example, if the nation's culture is based on centralization, which is the case of the research study, then the organizational chart will be vertically oriented, and a distance between managers and employees should take place.

On the spirit of teamwork, this study reveals that Lebanese banks are dependent on teamwork, through the coordination of each employee with his/her co-worker, superior and subordinate, to complete daily work.

It is observed that employees, external auditors, and board members, are more prone towards collectivism, matching with Hofstede's cultural dimension scores.

At the risk level, overall, the responses show that bank personnel are risk averse and prefer to be conservative, to mitigate risk. The domination of family culture inside Lebanese businesses necessitates that Lebanese banks abide by the Banking Control Commission rules and regulations, by integrating non-family members in their committees, in order to avoid any conflict of interest and subjectivity (Dutra, 2012). Most importantly, the BDL, as a backbone of the Lebanese economy, attempts to protect the banking sector by stressing the formation of different committees, in order to mitigate risk (Hejeij, 2015; Pellegrini-Bettoli, 2016). All respondents, including the managers and auditors, consider that committees' formation and external members' interference play a vital role in reducing banking risk. The commonality of the respondents' answers, regarding the actions taken by Lebanese banks to keep risk low, justifies the launching and enforcement of the corporate governance code, which highlights the guidance on risk governance (BIS, 2021), and the issuance of new BDL circulars, that guarantee a good governance.

One of the major cultural dimensions, proving suggestively influential in the shaping of corporate governance practices and organizational functioning, is the *wasta* system: the selection of people belonging to an enclosed circle of trust, defined by the same religion, confession, political affiliation, and/or family (Al Omian & Weir, 2005). The presence of *wasta*, as understood from the employees' version, is obvious in the selection and promotion of the employees, who gain from these opportunities if they are connected to the shareholders, owners, or senior management, regardless of their qualifications, that are mandatory for any recruitment.

On the other hand, the board members are in complete denial of the existence of *wasta*, despite the assertions made by the general employees and senior management team. Instead, they exhibit the common practice of referrals, as playing a vital role in recruiting, selecting, promoting, and remunerating employees, on the condition that the necessary requirements are met.

This study has many limitations, research studies (articles, books, and scientific publications) targeting the Lebanese market on corporate governance and culture, were very limited. Another limitation of this study was the absence of records, due to bank secrecy, and confidentiality among employees and managers. Moreover, the reliance on self-reported data was another limitation of this study.

The data for this study was primarily retrieved from interviews conducted with the respondents. To accommodate this limitation, the researchers reported the respondents' perceptions, rather than empirical truths. In addition, some respondents camouflaged their answers to some questions, out of fear of any suspension, demotion, or harassment, from their managers. For instance, when managers were asked how recruitment, selection, remuneration, and promotion were implemented, they did not trust that the information would be kept confidential and that it would not be disclosed to their superiors. Therefore, those from banks that were not implementing the above-mentioned practices properly preferred to camouflage their answers.

Finally, the time constraint that Lebanese bankers were facing, due to their long working hours (8 am to 6 pm), in addition to the stress at their workplace, made it difficult to find proper participants who were willing to answer the study's questions. This was resolved by using the researcher's personal network and connections, as an academic chair at a university, where many bankers and professionals were teaching.

Another important limitation of the study is related to Hofstede's model of cultural dimensions. The model is not representative, because it was only

taken from one company, and involved only a specific middle-class group of people. Hofstede's assumption of nations' cultural differences, by considering only IBM's company staff, is not justifiable. It is impossible for a study, conducted on only one company, to provide information on the entire cultural system of a country (Graves, 1986; Olie, 1995; Søndergaard, 1994).

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