An Exploration and Analysis of the Evolving Bank Corporate Governance Practices in Egypt: A Grounded Theory Approach

Mohamed Karim Sorour

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An Exploration and Analysis of the Evolving Bank Corporate Governance Practices in Egypt: A Grounded Theory Approach

by

Mohamed Karim Fathy Sorour

A thesis submitted to the University of Plymouth in partial fulfilment for the degree of

DOCTOR OF PHILOSOPHY
IN
BUSINESS AND MANAGEMENT

School of Management
The University of Plymouth Business School

August 2011
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DEDICATION

To my family: Mahinour, Omar & Jana

To my supervisors: Kerry E. Howell; Atul Mishra & Sue Farrar
An Exploration and Analysis of the Evolving Bank Corporate Governance Practices in Egypt: A Grounded Theory Approach
Mohamed Karim Fathy Sorour

ABSTRACT
This thesis investigates the phenomenon of corporate governance in the Egyptian banking sector (EBS); it aims to understand the nature of corporate governance in this context and identify the factors shaping it. Especially that these aspects had been ignored by the literature. Through grounded theory methodology, an empirical study of the nature of corporate governance in the EBS is undertaken, it identifies the factors affecting corporate governance in the EBS, the interests corporate governance is serving and as such outline the model of corporate governance prevailing in the EBS.
Grounded theory methodology is illustrated by the thesis in the following ways. First, through an application of the comparative method in the open coding stage based on semi-structured interviews conducted with bank directors and executives, government officials, auditors and central bank officials, open coding developed categories and identified their properties and dimensions. Indeed, the interviews were informed by the survey of banks’ corporate governance (BCG) practices. Second, through axial coding open categories were subsumed into broader categories, and the relationships among these categories were established by means of the paradigm model. This has led to building the Bank Action Choice Matrix and the Paradigm Model of Evolving BCG in the EBS. Axial coding provided the basis of the substantive theory. Third, selective coding based on a second round of semi-structured interviews had identified the core category, verified its relationships with other sub-categories and eventually presented the substantive theory of BCG.
The substantive theory was further explored in terms of the New Institutional Sociological Theory (NIST), leading to more formal substantive theory that consider corporate governance a social process affected by non-economic factors such as culture, politics, legal framework and human factors. It identified that BCG is in the process of institutionalization in the EBS. This process is geared toward the regulative pillar of institutions and the use of coercive power by the regulator, with banks adopting corporate governance seeking legitimacy. It also concluded that BCG is a political process, with powerful actors pushing to serve their interests; as such BCG is about power. Finally, it explained the heterogeneity of banks’ strategic responses to BCG institution, as some banks comply while others disguise their non-compliance, affected by internal organizational characteristics that hinder compliance and make some banks more susceptible to external obstacles.
This thesis extended the use of grounded theory to explore the phenomenon of corporate governance in an unexplored context, identified the prevailing BCG model in the EBS and explained the substantive theory of BCG in terms of NIST as such offered a non-traditional perspective for corporate governance theorizing. It contributes to better understanding of BCG by accounting for institutionalization as a process and explaining the heterogeneity of organizational strategic responses. Finally, this thesis is the first attempt to combine corporate governance, grounded theory and NIST offering policy-makers useful views for BCG reform.
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Author's Declaration

At no time during the registration for the degree of Doctor of Philosophy has the author been registered for any other University award.

The following activities were undertaken in connection with the program of the study:

- Participating in the university of Plymouth post graduate symposium 2008, with a paper under the title “Towards Corporate Governance Excellence within the Egyptian Banking Sector”.
- Participating in the university of Plymouth post graduate symposium 2009, with a paper under the title “Towards a Safer Banking Sector in Egypt: A Corporate Governance Approach”.
- Attending the corporate governance in the Egyptian banking seminar, EBI-CIPE, Marriott hotel, Cairo, April, 2009.
- Presented a paper in the International Maritime Conference of developing countries (MARDCON 11), with a paper titled “Egyptian Ports’ governance: meeting the recent challenges”. Hilton Green Plaza, Alexandria, AAST&MT, ISL-Bremen.
- Publishing a paper in The Journal Of Interdisciplinary Economies titled “On Bank Governance In Developing Countries: An Assessment of Egypt”
- Attending Research students skills development programs held at the university of Plymouth (Research methods, How to avoid plagiarism, Transfer process, Going global, Presenting a conference paper, Endnote for beginners, Preparing effective poster presentation, Creating your long document in word, Impact factor writing for research publication, Project management, giving and receiving feedback, performance management skills).

This thesis has a word count of 79,420

Date 3.8.2011

Signed

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LIST OF ABBREVIATIONS

AmCham BSAC: American Chamber of Commerce, Business Studies and Analysis Center
BCBS: Basel Committee On Banking Supervision
BCG: Bank Corporate Governance
CASE: Cairo Alexandria Stock Exchange
CBE: Central Bank of Egypt
CIB: Commercial International Bank
CIM: Central Bank Of Egypt Control Instruction Manual
CEO: Chief Executive Officer
EBI: Egyptian Banking Institute
EBS: Egyptian Banking Sector
ECB: European Central Bank
ECOCG: Egyptian Code Of Corporate Governance
EGP : Egyptian Pound
EIOD: Egyptian Institute of directors
ERSAP: Economic Reform and Structural adjustment Programme
IFC: International Finance Corporation
IMF: International Monetary Fund
IOEF: Index of Economic Freedom
NBE: National Bank of Egypt
NED: Non-executive directors
NPL: Non-performing loans
NIST: New Institutional Sociological Theory
OECD: Organization of Economic Cooperation and Development
ROSC: Report on observance of Standards and Codes
SMEs: Small and medium enterprises
SOX: Sarbanes Oxley Act
SWOT analysis: Strengths, Weaknesses, Opportunities and Threats analysis
USD: United States Dollar
CHAPTER ONE

Introduction and Overview of the Thesis

The nineteenth century saw the foundations laid for modern corporations: this was the
century of the entrepreneur. The twentieth century was the century of management: the
phenomenal growth of management theories, management consultants, management gurus
and management teaching all reflecting a preoccupation with management. Now the twenty-
fifth century promises to be the century of governance - as the focus swings to the legitimacy
and the effectiveness of the wielding of power over corporate entities world-wide (Tricker,
2000:2).

1.1. Introduction

In the contemporary business environment proper corporate governance structures and
practices are crucial for maintaining the soundness of any banking sector within
developing, transitional and developed economies. Obviously, weak corporate
governance has been a main reason behind many banking crises such as the East-Asian
and the Russian banking crises (Barth et al, 2007; Nam and Lum, 2006). Similarly, the
global financial crisis (2007) has indicated that effective corporate governance of
banking organizations cannot be compromised (Kirkpatrick, 2009; De Larosiére et al,
2009). However, this is easier said than done.

In general, corporate governance research has not paid enough attention to banking
organizations compared with the attention paid to non-financial institutions (Shleifer
and Vishny, 1997). Additionally, having certain peculiar characteristics, banking
organizations need for effective corporate governance is paramount (Caprio and Levine,
2002; Levine, 2003; Macay and O’hara, 2003; Mullineux, 2006; Barth et al, 2007).

Indeed, the global financial crisis (2007) has emphasised that corporate governance of
financial institutions needs more attention (De Larosiére et al, 2009). In fact, this need
is much greater in developing countries where economies are bank-based (Das and
Ghosh, 2004). In Egypt the situation is even more critical because it is a developing
country that witnessed banks’ failures in 1990s due to weak corporate governance
leading to a huge amount of non-performing loans (NPL). Nonetheless, the issue has been totally neglected by the literature.

At the same time, the mainstream corporate governance theorising is either based on shareholding or stakeholding perspectives that have common economic theoretical underpinnings (Letza et al, 2008). Unfortunately this traditional approach to corporate governance theorising fails to conceive the complex phenomenon of corporate governance as a social dynamic phenomenon that varies according to the institutional environment where it is embedded (Letza and Sun, 2002; Aguilera and Jackson, 2000; Letza et al, 2004; Kirkbride et al, 2005; Mason et al, 2007; Ardalan, 2007; Letza et al, 2008). It fails to account for the role of non-economic factors (political, cultural and human factors) in shaping corporate governance (Ardalan, 2007). Furthermore, corporate governance related scandals signify the need to revisit corporate governance theorising. Indeed, this is crucial because it affects how bank corporate governance systems are designed and maintained. Finally, from the developing countries perspective, the situation is more complicated because much of the assumptions applicable in market based systems of developed countries such as low degree of ownership concentration, limited bank holdings and timely information are not realizable (Rwegasira, 2000) thus creating additional barriers in front of utilising the traditional shareholding-stakeholding theoretical framework to understand the corporate governance phenomenon.

This thesis aims to discover the nature of the corporate governance phenomenon in the EBS. It will attempt to decrease the degree of uncertainty surrounding this phenomenon in this particular context. Indeed, the study will attempt to identify and understand the particular factors shaping corporate governance within the EBS. This is intended not

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1 According to Rottke and Gentgen (2008:6) NPL can be defined in many ways but the most straightforward definition is the Basel II accord definition of NPLs "as loans that are past due and unpaid for more than 90 days".
only to fill the knowledge gap but also to offer a better understanding of the phenomenon, which can assist in protecting the EBS against recurrence of similar detrimental bank failures.

Moreover, this thesis wishes to extend the literature on corporate governance theorizing by utilising the NIST as an alternative corporate governance theoretical framework that can interpret the corporate governance phenomenon from a more social, interpretative and context specific perspective. This trend of corporate governance research began to gain momentum during the past few years (Letza and Sun, 2002; Aguilera and Jackson, 2003; Letza et al, 2004; Kirkbride et al, 2005; Chizema and Buck, 2006; Seal, 2006; Ardalan, 2007; Letza et al, 2008; Zattoni and Cuomo, 2008; Lee and Yoo, 2008; Chizema, 2008; Judge, 2009). Indeed, this is more compatible with the objective of understanding the corporate governance phenomenon within the context of the EBS and determining factors shaping it.

Through the application of grounded theory methodology this thesis aims to build a substantive theory of BCG within the EBS; a substantive theory that is grounded and faithful to the reality and based on studying the phenomenon of corporate governance in its original settings. Indeed, grounded theory is a rigorous approach that “forces the researcher to look beyond the superficial, to apply every possible interpretation before developing final concepts, and to demonstrate these concepts through explication and data supported evidence” (Goulding, 2004: 297).

Data collection began with a survey of bank corporate governance practices within the EBS. This was important to allow access to data and inform question formulation in the subsequent semi-structured interviews (A). Following the survey, open coding procedures started with data collection using semi-structured interviews (A) with bank directors and executives from various banks, governmental officials, CB officials and auditors. Semi-structured interviews (A) were the basic data collection method
employed in this thesis and contribute to open, relational / variational, and discriminate sampling. Finally another round of semi-structured interviews (B) were carried-out at the stage of selective coding to identify the core category, discover its properties and dimensions and verify its relationship with sub-categories. Indeed, this semi-structured interview (B) is related to discriminate sampling.

The thesis has built a substantive theory of BCG that is the result of coding, categorization and analysis of data systematically collected for this study through two rounds of semi-structured interviews. It reflects the opinions of bank directors and executives, CB officials and auditors. As such, it is grounded on data obtained from a substantive area of investigation. The substantive theory exemplifies a system of BCG, it captures complexities from real life by accounting for the structure where BCG phenomenon is embedded as well as the processes taking place in relation to BCG. It shows the interaction and interplay between BCG and the banking environment that indeed leads to the evolution of BCG practices in the EBS.

1.2. An Overview of the Thesis

The thesis is divided into nine chapters.

Chapter one outlines the thesis in terms of the research problem, the nature of the phenomenon investigated and the research objectives. It briefly highlights the research methods and methodology utilised to build the substantive theory of BCG within the EBS context. Finally, it provides an overview of the thesis.

Chapter two provides the literature review which is divided into three parts: part one reviews the corporate governance literature; part two reviews corporate governance within banking organizations; while part three provides a brief profile of the EBS and reviews related corporate governance issues. This chapter highlights how the corporate governance issue is a controversial and full of debatable issues. It also discusses the traditional perspectives of corporate governance theorizing and related
criticism grounds. Then, it reviews NIST as an alternative theoretical framework for understanding corporate governance and explains the merits of this non-traditional perspective.

In part two of this chapter, the issue of corporate governance in banking organizations is reviewed and the special features of banks are identified showing corporate governance significance to banking organizations. Also, BCG is reviewed within the context of developing countries clarifying the reasons for its greater significance in these countries. Finally, part three of this chapter, provides a brief profile of the EBS and reviews corporate governance issues of the Egyptian banking sector. Essentially this included reviewing the situation of the Egyptian banking showing how weak corporate governance contributed to previous bank failures in Egypt; nonetheless, it was totally ignored by the literature.

It must be noted that chapter two recognises a gap in the body of knowledge regarding corporate governance research within the EBS and also acknowledges the criticism of traditional corporate governance theorizing. Indeed, it offers an alternative theoretical framework that promises to provide more fruitful interpretations of the corporate governance phenomenon.

Chapter three identifies the research problem and the degree of uncertainty surrounding the phenomenon of corporate governance within the EBS. Then it discusses the relevance of the qualitative research design to achieve the research objective of building a substantive theory of BCG to discover the nature of corporate governance phenomenon within the EBS and identify the factors shaping it, in addition to utilising the NIST to further explore the substantive theory. As such filling the knowledge gaps identified in the literature review namely: the absence of research addressing corporate governance of the EBS; the inability of the traditional corporate governance
perspectives\(^2\) to offer the necessary understanding of this phenomenon that can help in enhancing corporate governance practices within the EBS.

Then chapter three explains various paradigms of inquiry within qualitative research and differentiated between them on the basis of their ontological, epistemological and methodological stances. The chapter identifies the paradigmatic stances of the research by adopting a combination of interpretive- social constructionist paradigms to underpin the methodology of this research discussing the rationale for this selection. Moreover, this chapter discusses grounded theory methodology, identifies the type of theory it develops, highlights its philosophical origins and identifies the grounded theory versions that match the philosophical underpinnings of this thesis.

This chapter has also presented Glaser, Strauss and Corbin approaches for grounded theory procedures. It highlights the core differences between both approaches, and presents the rational for selecting Strauss and Corbin approach in this thesis.

Chapter four explains the research methods utilized in this research, through discussing the sampling and research site selection as well as the data collection scheme. Indeed, this thesis follows the logic of theoretical sampling, which seeks to obtain data that are theoretically relevant, as such it assists the researcher to predict where and how to find necessary data to fill gaps and saturate emergent categories (Charmaz, 2006). Here, commercial banks were the primary research site for conducting this research, but application of theoretical sampling has guided the researcher to other relevant research sites. These include the Central Bank of Egypt (CBE), International auditing Firms, the Egyptian Stock Market, the Egyptian Banking Institute (EBI) and the Egyptian Institute of Directors (EIOD).

This chapter explains the data collection scheme used in this research. It clarifies how the substantive theory generation was grounded on data gathered from three sources. A

\(^2\) Based on shareholding-stakeholding corporate governance theorising
survey that evaluated the current corporate governance practices of banks. The objective of the survey is to allow access to data, and discovery of important areas that inform question formulation in the semi-structured interviews (A). This is followed by semi-structured interviews (A) with bank directors and executives from various banks, governmental officials, CB officials and auditors. Indeed, the semi-structured interviews (A) was the basic data collection method employed at the stages of open and axial coding. Finally, another round of semi-structured interviews (B) were carried at the stage of selective coding to identify the core category, discover its properties and dimensions and verify its relationship with sub-categories.

This chapter presents the results of survey statement analysis. This includes grouping the eleven likert scale statements into three groups: stakeholders' interests, board of directors corporate governance practices and communication of corporate governance issues. Frequency tables and figures were constructed to clearly compare corporate governance practices of various banks. This has indeed furthered the understanding of the corporate governance within the context the EBS, contributed towards the identification of areas that require further investigation in semi-structured interviews stage. The main conclusions of this chapter highlighted the quality of the current BCG practices and informed subsequent data collection using the semi-structured interviews (A).

Chapter five shows a detailed analysis of the semi-structured interviews (A) questions. Indeed, the questions were formulated in the light of the survey analysis as well as the informal conversations with participants. Following the grounded theory procedures, data collection and analysis proceeded simultaneously; leading to the development of nine open categories in terms of their properties and dimensions. These open categories are the foundation of the substantive theory. These open categories are: corporate governance identity, laws and regulations; upgrading supervision, bank
competitiveness, pressure groups, interests' protection, board effectiveness in corporate governance, modifying BCG internal mechanisms and Hawkamat Al-Sharikat culture. These categories are carried forward to the next stage of grounded theory procedures that is the axial coding.

Chapter six demonstrates the process of axial coding within grounded theory procedures. The main purpose of axial coding was to reassemble data fractured during open coding (Strauss and Corbin, 1998). It demonstrated how the nine open categories that emerged during open coding can be further arranged and linked together to form a coherent overall system (Howell, 2000). It developed five main categories; here the focus was on developing categories on the basis of their relationship not in terms of their properties and dimensions. The main categories developed through axial coding are: Drivers, obstacles, reform strategies, contextual factors and evolving BCG practices. These categories were related together by means of the coding paradigm (Strauss and Corbin, 1990b; 1998). An application of the paradigm model indicated that the drivers are the causal conditions, evolving BCG practices is the phenomenon; while obstacles represent the intervening conditions; reform strategies are the action / interactional strategies that occurred with the consequences of enhancing banks' legitimacy, improved perceived protection of shareholders', CBE and depositors besides bringing further corporate governance reform. Indeed, the phenomenon represents the category and other components of the paradigm model are sub-categories.

Axial coding was aided by the means of an action choice matrix and the evolving BCG practices model. The former contributed to understanding how banks' act in relation to adopting corporate governance requirements, while the latter provides a visualization of the application of the paradigm model and clarifies how the structure and process are

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3 This is the Arabic term for corporate governance as will be discussed in chapter five
integrated in axial coding. The output of this chapter is the foundation of further data collection (semi-structured interviews (B)) and analysis within the selective coding.

Chapter seven presents selective coding that is the final coding procedure of grounded theory. It identifies the core category in terms of its properties and dimensions, and validates the relationship between the core category and other subcategories. This took place through a second round of semi-structured interviews (B) based on the results of axial coding. At this stage sampling was directed and deliberate (discriminate sampling). As such, interviewees were asked to state their opinion regarding eight statements prepared carefully to verify relationships between the core category and other subcategories and develop the core category in terms of its properties and dimensions.

This chapter deployed a statement by statement analysis, and developed an overall frequency table and a figure to clarify the results of interviews. However, notes taking during interviews enriched and supplemented the analysis, especially in what concerns developing the core category in terms of its properties and dimensions. This was summarized through a BCG reform system model. Linking the core category with other subcategories was undertaken by the means of the paradigm model. Finally, this chapter presented the substantive theory of BCG that is the result of coding, categorization and analysis of data systematically collected for this study through a survey and two rounds of semi-structured interviews. It reflects the opinions of bank directors and executives, CB officials and external auditors. As such it is grounded on data obtained from substantive area (EBS).

Chapter eight explores the substantive theory of BCG in the light of NIST. This chapter revisits the relevance of NIST to discuss corporate governance phenomenon and summarizes the reasons of such relevance. Explaining the substantive theory in terms of an existing formal theory such as NIST was not meant to turn the substantive to formal
theory, but to make it a formal substantive theory (Glaser and Strauss, 1967). The substantive theory was interpreted in terms of the NIST from three perspectives: It interprets BCG reform as a social process and shows that banking organizations within the EBS can be analyzed from an open system perspective, where their respective BCG practices are affected by the wider context or environment (Scott, 2001). The second perspective explains that the BCG reform process indicates the institutionalization of BCG within the EBS, and indicated that this institutionalization process is a political process based on the concept of power. Indeed, powerful actors within this process further their interests. The third aspect is that NIST explained the heterogeneity of banks' strategic responses to the BCG institution. Some banks choose compliance while other chooses disguising of non-compliance. But both types are legitimacy seekers. Indeed, the strategic choice is affected by internal organizational characteristics that enhance or hinder compliance. Finally, the chapter restates the substantive theory within the NIST framework.

Chapter nine provides an overall summary of the thesis and discusses the contributions of this thesis; which include using of grounded theory to explore the phenomenon of corporate governance in an unexplored context, and extension of the NIST to explore the phenomenon of BCG. The thesis also accounted for institutionalisation as a process not only as an output (Dillard et al, 2004) and explains heterogeneity of organizational responses. The thesis also contributes to corporate governance theorizing through showing that the shareholding and stakeholding perspectives are not capable of exploring the BCG phenomenon especially that it is based on legitimacy seeking rather than efficiency and rationality notions. It also advances corporate governance theorizing by utilizing an alternative theoretical framework that is well suited to explore the findings of the substantive theory of BCG. Also, this thesis presents the current model
of BCG within the EBS. This model is a pluralistic model that aims serving the interests of shareholders, regulator and depositors.

This thesis is the first thesis that triangulate between the corporate governance, grounded theory and NIST domains. As such, this is another novelty dimension as this thesis addressed an important concept such as corporate governance of banks using the grounded theory methodology that “force the researcher to look beyond the superficial, to apply every possible interpretation before developing final concepts, and to demonstrate these concepts through explication and data supported evidence” (Goulding, 2004: 297). It also revisits corporate governance theoretical underpinnings and shows that the resulting substantive theory of BCG can be interpreted by utilizing NIST, thus providing a new approach to corporate governance understanding. Through this approach corporate governance is context specific. This triangulation is a response to calls to seek meaningful evidence that can “inform and improve practice” (Smallman, 2007).

The thesis has also practical contributions of discovering determinates of banks’ corporate governance identity, the obstacles facing BCG within the EBS and explains the BCG reform process as an institutionalization process. Indeed, this can better inform further reforms and policy making, through knowing in advance what to address and how banks’ are expected to respond.
CHAPTER TWO

Literature Review

Part One: Corporate Governance Literature

2.1 Introduction

The Literature review is divided into three parts: part one reviews corporate governance literature and highlights controversial issues in corporate governance such as corporate governance definitions and the shareholding and stakeholding perspectives. Additionally, part one assesses the traditional corporate governance theorising in terms of capturing the complexities of the corporate governance phenomenon. It also sheds the lights on NIST as an alternative theoretical framework to study corporate governance phenomenon. While part two focuses on discussing the significance of corporate governance of banking organizations especially in developing countries, part two also discusses the corporate governance model within banking industry. Finally part three presents an overall review of the EBS, its development and corporate governance related issues.

2.2 Defining Corporation

Defining corporation has been an area of debate since the times of Adam Smith (1776) and throughout the industrial revolution till the globalisation. Different definitions of the corporation are in essence reflecting various perspectives of those defining it (Post et al, 2002). The metaphor used by Monks and Minow (2004) is quite helpful to illustrate this point:

Anyone who tries to come up with a definition is like the blind men who tried to describe an elephant—one feeling the tail and calling it snake, one feeling the leg and calling it a tree, one feeling the side and calling it a wall (P.8).
Essentially, defining corporation determines "whom and for what it and its managers responsible?" (Post et al, 2002:7).

Two perspectives are worth mentioning here, a narrow perspective defining corporation as "legal fictions which serve as a nexus for a set of contracting relationships among individuals" (Jensen and Meckling, 1976:8), which indicates that a corporation is just a sum of agreements that are necessary for its existence (Monks and Minow, 2004). From a broader perspective a corporation can be defined as "the centre of a network of interdependent interests and constituents, each contributing to its performance, and each anticipating benefits (or at least no uncompensated harms), as a result of the corporation's activities" (Post et al, 2002:7).

A more balanced pluralistic definition of a corporation is advocated by Monks and Minow (2004:9) as follows:

A corporation is a mechanism established to allow different parties to contribute capital, experience, and labor, for the maximum benefits of all of them... the investor get the chance to participate in the profits... without taking responsibility for the operations. The management gets the chance to run the corporation without taking the responsibility of personally providing funds... the independent entity must still relate to a wide variety of "constituents" including its directors, managers, employees, shareholders, customers, creditors, suppliers... the community and the government...each of these relationships affects the direction and focus of the corporation.

2.3 Defining Governance

The term governance has been subject to many interpretations, with the literature offering numerous ways of defining governance (Peters and Pierre, 1998). However, it is important to recognise that "governance is not government" (Young 1999 cited in Kahler and Lake, 2003:6).

Pierre (2000) argues that governance refers into two meanings; firstly it can refer to "empirical manifestation of the state adaptation to its external environment as it emerges in the late twentieth century" (P.3). Secondly, governance can refer to "a

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4 Jensen and Meckling (1976) refers to the "artificial constructs under the law which allows certain organisations to be treated as individuals."
conceptual or theoretical representation of coordination of social systems and for the most part, the role of the state in the process” (ibid). The former reflects a policy perspective of governance that clarify how various instruments can be employed to achieve particular policy objectives, ranging from “types of more or less heavy-handed instruments in order to achieve certain societal outcomes” (Treib et al, 2007:4). Here the main problem is how far the institutional and political capacities of the state are capable of steering (Pierre, 2000). The latter, refers to a societal perspective of governance, emphasising that governance denotes “systems of rules that shapes the action of social order...governance...is thus explicitly conceptualized as an institutional perspective (Mayntz, 2004, cited in Treib et al, 2007:3). Here the main problem lies in “coordination and self-governance” (Pierre, 2000:3).

Moreover, according to Pierre (2000) and Heritier (2002) governance entails achieving sustainable coordination and coherence among various parties with different objectives and purposes including “political actors and institutions, corporate interests, civil society, and transnational organisations” (Pierre, 2000:4). Maintaining the coordination and coherence between such (possibly) conflicting interests is now seen as a “societal problem” that can be resolved by political institutions and in cooperation with other parties (ibid). Governance and related steering of such interests, essentially involve both public and private actors (Treib et al, 2007).

Jessop (1995:317) argues that theories of governance are primarily concerned with a wide range of ‘social’ modes of social coordination rather than with narrowly political aspects; he argues that

social coordination refers to the ways in which disparate but interdependent social agencies are coordinated to achieve specific social (economic, political, etc) objectives... one could define the -governance studies as concerned with the

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5 Here the role of the private sector in shaping public policy cannot be underestimated or neglected, as it exists with various degrees of formality, and may be dominant in case that the state has “delegitimated” (Peters and Pierre, 1998:225). This is the case that can occur due to “State actors are excessively clumsy, bureaucratic and path dependent and in part because of the control of information and implementation structures by private actors” (ibid: 225).
Indeed, the abovementioned definitions of corporation and governance as separate concepts would indicate that there will be more than one definition of corporate governance, depending on whether it is a narrow or a wide perspective of defining each concept. However, from a balanced point of view, and building on Monks and Minow (2004) and Jessop (1995), one can argue that corporate governance is related to how the interests of various constituents within a corporation setting are coordinated.

2.4 Defining Corporate Governance

Reviewing the literature reveals numerous ways to define corporate governance, each with a particular focus. Thus there is "no single accepted definition of corporate governance" (Solomon and Solomon, 2004:12). Indeed, this is unsurprising as several definitions exist for the terms: corporation (Monks and Minow, 2004) and governance (Treib et al, 2007). However, Cadbury report provides a widely accepted definition for corporate governance as "the system by which companies are directed and controlled" (1992: para. 2.5)⁶. Moreover, Cadbury report considers that the board of directors of a company is responsible for the governance of the company and clarifies that the shareholders' role in corporate governance is to appoint directors, auditors and satisfy themselves that an appropriate governance structure is in place.

Adopting a narrow finance perspective to define corporate governance looks at the corporation as serving solely the interest of its shareholders. Here Parkinson (1994) defines corporate governance as the process of supervision and control intended to ensure that the company's management acts in conformance with the interest of the

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⁶ It should be noted that this is also the accepted definition when political science researchers define governance in a corporation context such as Rhodes (1996).
shareholders. While, looking at the corporation from a more wider perspective as
serving the interests of a wide range of stakeholders and not only the shareholders,
Tricker (1984) states that the corporate governance "role is not concerned with
running the business of the company, per se, but with giving an overall direction to the
enterprise with overseeing and controlling the executive actions of management, and
with satisfying legitimate expectations of accountability and regulation by interests
beyond the corporate boundaries" (cited in Solomon and Solomon, 2004:13). Thus a
basic distinction between whether corporate governance should only serve shareholders'
interests or extend its role to serve a wider range of stakeholders has emerged.
The OECD presents a well-balanced definition which considers the interests of both
shareholders and other stakeholders (Nwanji and Howell, 2007b).
The definition states that corporate governance is

\[ \text{a set of relationships between a company's management, its board, its}
\text{shareholders and other stakeholders. Corporate governance also provides the}
\text{structure through which the objectives of the company are set, and the means of}
\text{attaining those objectives and monitoring performance are determined}
\text{(OECD, 2004: 11).} \]

As the main objective of this study is to discover the nature of corporate governance
within the EBS, the OECD's definition of corporate governance can provide some
objective guidance as it is perceived as unbiased to neither the narrow finance
perspective nor the wide stakeholder perspective. However, it is data collection and
analysis that will determine the best definition that fits the Egyptian banking context.
This will be discussed later in the substantive theory chapter eight.

2.5 Emergence of Corporate Governance as an Issue

The term corporate governance was scarcely used until the mid 1980s when it emerged
as the title for a research paper, report and book title (Tricker, 2000: xviii). Its

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7 The Organization For Economic Co-operation and Development (OECD) issued its principles of
corporate governance in 1999 with an updated version in 2004. The World Bank's research confirms that
the OECD principles are incorporated in nearly 98% of countries corporate governance codes and hence
present a well-balanced widely accepted definition (Nwanji and Howell, 2007b).

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subsequent spread was very much the result of several corporate scandals that occurred during and after this period as a consequence of weak corporate governance. A notable example is the Maxwell scandal of 1991 which was named as the greatest fraud of the 20th century, and had a great influence on making corporate governance an issue for public, business and political concerns (Jones, 2005). Improper borrowing strategies were linked to the fact that chairman and the chief executive officer (CEO) positions were held by the same person. Another example is the Barings Bank collapse of 1995, where in addition to the unethical behaviour of the person in charge, there was no separation between the chairman and the CEO positions in addition to ineffective internal control functions (ibid). More recently, the American Enron scandal of 2001 was a pre-eminent example of corporate governance failure. It was considered the largest business collapse in USA history. Moreover, Enron’s auditing firm Arthur Anderson was implicated in the scandal and was convicted of obstructing justice, for shredding the audit documents of Enron and it too subsequently collapsed (ibid).

The Enron scandal led to stringent corporate governance reforms in the USA with Sarbanes-Oxley (SOX) Act passed in 2002 reforming the corporate governance framework and making it more robust in dealing with the identified failures. In the UK, although some researchers such as Solomon (2007) claim that issuing of Higgs and Smith reports on corporate governance in 2003 was a response to the Enron scandal, there is no explicit relationship between the two events, as these two reports were the latest in a series of reports already issued, starting with Cadbury code (1992), followed by Greenbury report (1995), Hampel report (1998), Combined Code (1998) and Turnbull report (1999).

Other corporate collapses linked to corporate governance failures after Enron were the American WorldCom scandal of 2002 and the European Parmalat scandal of 2003. These incidents not only increased the need for an effective system of corporate
governance but also demonstrated that the need for developing and improving corporate governance will be an ongoing issue as fraud, power abuse and mismanagement could never be totally eliminated (Jones, 2005; Cadbury Report, 1992: Para.1.9). Despite, the efforts undertaken by countries around the world to improve their corporate governance systems, the global financial crisis clearly showed that these efforts have not been enough to stop further crises from occurring. More importantly, the financial crisis has shown that significant efforts need to be directed towards strengthening corporate governance of financial institutions; especially inappropriate risk assessment and management, reckless boards and improper remuneration systems that encouraged short-termism rather than long term value creation (Kirkpartick, 2009; De Larosiére et al, 2009).

2.6 Reasons for Corporate Governance Reform

Witherell (2000) indicated that good corporate governance practices are essential to economic well-being of any country. As such an intergovernmental organisation such as the OECD, issued a set of corporate governance principles to assist governments of emerging, transitional, and developed economies in building stronger corporate governance systems capable of protecting investors (ibid).

Here at a macro-economic level, corporate governance reform is essential to attract foreign direct investment, being widely considered as the best safeguard against the sort of business failures cited above is an effective system of corporate governance (Vinten, 1998). So if a country lacks a reputation for strong corporate governance practices, investors will be reluctant to invest in this country (Levitt, 1999; Judge, 2006). Effective corporate governance is important because it increases investor confidence; this was substantiated by a global investors' survey which stated that investors are willing to pay

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*Section 2.5*
premium for companies that exhibit high corporate governance standards; this premium has reached 39% in the case of Egypt (Mckinsey and Company, 2002).

At a micro-economic level, corporate governance reform is important in terms of minimising conflict of interests that would impede a company from achieving its designated objectives such as maximising shareholders wealth (Shivdasani and Zenner, 2004; Laing and Weir, 1999). Moreover, there is a growing body of knowledge that corporate performance can be a function of effective corporate governance (Coyle, 2005; Gillan, 2006). This can allegedly occur by preventing lazy and inefficient management, by replacing reckless or over ambitious management, and generally improving the quality and performance of boards (Mardjono, 2005). However, research undertaken in this domain produced inconclusive results\(^9\) putting this reason as a mediocre reason for corporate governance reform.

In conclusion, corporate governance reforms have been always a response to corporate failures and scandals related to corporate governance malpractices (Kirkpatrick, 2009). It is the fear of corporate failures rather than hope of corporate success that drives corporate governance reform. To illustrate this we need to look no further than the history of corporate governance reform in the UK for instance, the country that very much led the way in what has become a world-wide movement towards the corporate governance reform. Obviously, the Cadbury report initiated the reform process in response to the corporate scandals of this period (Cadbury, 1992: Para.2.2). Similarly, recent corporate governance reform in the USA was a post Enron response. Now the emphasis on financial institutions’ governance is also a response to other corporate governance failures (Kirkpatrick, 2009; De Larosiére et al, 2009).

2.7 Traditional Corporate Governance Theorising

Reviewing the literature reveals that several theories have been utilized to underpin corporate governance models and practices (Solomon and Solomon, 2004; Solomon, 2007). Unsurprisingly, different theories led to different diagnoses of corporate governance problems and approaches of solving such problems (Letza et al, 2004). Moreover, it has not always been clear whether practices follow theory or the opposite (Daily et al, 2003). This has led to a difficulty to find a widely accepted and comprehensive theory of corporate governance (Young and Thyil, 2008). However, the research mainstream indicates that there are two principal theories utilized to explain corporate governance: the agency and the stakeholder theories with two models of corporate governance based on these theories identified: the shareholding and stakeholding models respectively (Freeman and Reed, 1983; Maher and Andersson, 2000; O’Sullivan, 2000; Kakabadse and Kakabadse, 2001; Gamble and Kelly, 2001; Friedman and Miles, 2002; Omran et al, 2002; Letza and Sun, 2002; Letza et al, 2004, Chilosi and Damiani, 2007; Carillo, 2007; Nwanji and Howell, 2007a, Nwanji and Howell, 2007b; Letza et al, 2008; Keay, 2010).

Each of these two perspectives supposes primacy to the other (Keay, 2010). The shareholding perspective considers the purpose of the corporation to maximise the shareholders wealth and identifies the corporate governance problem as an agency problem arising from separation of ownership and control as with such separation comes the conflict of interests between the principal (shareholder) and the agent (managers) (Carrillo, 2007; Letza et al, 2004; Letza et al, 2008). While the stakeholding perspective considers the purpose of the corporation is to serve the interests of stakeholders and not shareholders only, as such the corporate governance problem lies in the inconsideration of non-share owning stakeholders’ interests and potential conflict of interests between stakeholders *per se* (ibid). As such the adoption of either
perspectives of corporate governance (Shareholding v. stakeholding) is to a great extent a decision based on particular conception of the company, its purposes and its legal and political foundations (Gamble and Kelly, 2001). This can be demonstrated by the example of the UK where the shareholding perspective is dominant in relation to historical debates “around the principal of limited liability and the merits of the joint stock company” (ibid: 10) and how the shareholding perspectives is well-suited to serve owners of these companies. More recently, and with the change in the business environment especially with the transformation of the UK economy from being based on small scale individual enterprises to the dominance of large public companies comes the debates on the advantages that the stakeholding perspectives can bring about to businesses (ibid).

The following sections will discuss each of the two corporate governance models (shareholding v. stakeholding) in terms of explaining their theoretical underpinnings, fundamental premises and highlights the main arguments for and against. The main objective here is to demonstrate the ongoing debate on corporate governance theorising rather than favouring one model to the other. Finally, this section will discuss the extent to which such dualistic approach for corporate governance theorising fits the case of modern business corporations. Lights are then shed on alternative or non-traditional approaches for corporate governance theorising, namely, the NIST framework as an alternative that can offer better understanding of the corporate governance phenomenon (Seal, 2006; Chizema and Buck, 2006; Judge et al, 2008; Zattoni and Cuomo, 2007; Carver, 2007; Chizema, 2008).

2.7.1 The Shareholding Model of Corporate Governance

The shareholding model theoretical underpinnings can be traced back to the agency theory (Jensen and Meckling, 1976). This theory is one of the principal theories utilised to explain corporate governance, and it underpins the so called simple finance model of
corporate governance (Hawley and Williams, 1996; Letza et al, 2004; Letza et al, 2008). It is the introduction of limited liability form of business and the increase of diffused share ownership in public corporations that led to the separation of ownership and control (Gamble and Kelly, 2001), with management responsibilities assigned to professional personnel (Solomon and Solomon, 2004; Solomon, 2007). Here, an agency relationship exists between the two parties: the owners and the management, this relationship has been defined by Jensen and Meckling (1976:308) as

\textit{a contract under which one or more persons (the principal(s)) engage another person to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers there is a good reason to believe that the agent will not always act in the best interest of the principal.}

Therefore in such setting the separation of ownership and control trigger a conflict of interests between the principal and the agent. This conflict arises based on the assumption that agent will act opportunistically to pursue his/her own objectives rather than maximising the shareholders wealth deemed as the legitimate objective of the corporation (ibid).

Furthermore, Turnbull (1997) states that a basic conclusion of the agency theory is that the value of the firm and hence its shareholders wealth cannot be maximised because of this agency problem, especially that managers (agents) have better access to information and are responsible for decision making, giving them the chance to further their own interests at shareholders' expense. This is likely to occur given the non-existence of a well-developed market for corporate control leading to "\textit{market failure...moral hazards}\textsuperscript{10}, asymmetric information\textsuperscript{11}... and adverse selection\textsuperscript{12}" (Bonazzi and Islam, 2007:7).

\textsuperscript{10} Moral hazard occurs as a result of asymmetric information when managers are not motivated to make decisions that serve the shareholders interests and the inability of the principal (Shareholder) to monitor the agent's actions due to lack of information (Kyereboah-Coleman and Biekpe, 2006; Rauchhaus, 2006).

\textsuperscript{11} Different levels of information between the agent and the principal, where the earlier own more information than the latter, as such being able to make informed decisions, which can be serving other interest and not the shareholders' (Maher and Andersson, 2000).
Therefore in such setting the separation of ownership and control would trigger a conflict of interests between the principal (shareholder) and the agent (management). The agency theory suggests that aligning the interests of both the agent and the principle requires incurring agency costs; this includes "monitoring costs" to limit the opportunistic activities of the agent, in addition to "bonding costs" to assure that the agent will not make decisions that may harm the principal. Additionally, there is the cost arising from difference in decision making process between the agent and the principal, where different course of action leads to reduction in the principal's welfare. Here, alignment of interests can be reached through having effective contractual agreements between the principal and the agent(s), which includes incentive contracts for instance (Jensen and Meckling, 1976; Eisenhardt, 1989).

With the separation of ownership and control becoming inevitable with the establishment of public companies with a diffused ownership base, where owners (shareholders) have limited liability but "bear the residual risk of the enterprise" (Gamble and Kelly, 2001:110). The shareholder primacy became a dominant concept especially in the Anglo-American corporations (Chilosi and Damiani, 2007). Here the assumption is that company directors owe a fiduciary duty to run the company in the interest of its shareholders (Gamble and Kelly, 2001). This assumption can be traced to the so called Fiction theory\(^\text{13}\)

\footnote{Adverse selection occurs as a result of information asymmetry when the agent chooses the alternative that is not in the best interest of the principal because of ignoring the agents preferences before selection takes place i.e. before contracting with the agent (Rauchhaus, 2006).}

\footnote{Jensen and Meckling (1976:8) used the term legal fictions when defining a corporation referring to that corporation "are legal fictions that serve as a nexus for a set of contracting relationships among individuals"}

\textit{Advocated by the German jurisprudent Rudolf Vonjhering (1818-1892) and the American Jurisprudent Wesley N. Hohfed (1879-1918). That doctrine asserts that the corporations as a legal group is simply created by the state and is no more than a private association of shareholders. The new form of corporate property is the aggregation of individual property rights under a collective name, united by contract and protected by law (Letza et al, 2004:247).}
Clearly, a central premise in the shareholding perspective is the notion of private property. So from the corporate governance point of view, the only interests that qualifies for protection by corporate governance mechanisms are those of the owners of the corporation (shareholders). Moreover, it should be noted that the agency problem is not new, but can be traced back to Adam Smith (1779) who documented it well as follows:

The trade of a joint stock company is always managed by a court of directors. This court, indeed, is frequently subject, in many respects, to the control of a general court of proprietors. But the greater part of those proprietors seldom pretend to understand anything of the business of the company, and when the spirit of faction happens not to prevail among them, give themselves no trouble about it, but receive contentedly such half yearly or yearly dividend as the directors think proper to make to them. This total exemption from trouble and from risk, beyond a limited sum, encourages many people to become adventurers in joint stock companies, who would, upon no account, hazard their fortunes in any private copartnery. Such companies, therefore, commonly draw to themselves much greater stocks than any private copartnery can boast of... The directors of such companies, however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company (Smith, 1779, Chapter VI: 989-990).

Furthermore, and with the rise of the social responsibility doctrine as an emerging notion in free markets, requiring businesses to have a social conscience and do not focus solely on serving shareholders interests. The shareholding perspective demonstrated dominance and the social responsibility was faced with objections and perhaps the most widely cited argument against this notion is Friedman’s (1970) statement that stressed on

In a free society, there is one and only one social responsibility of business... to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engage in open and free competition without deception of fraud (P.5).

Equally important, arguments against the shareholding perspective were formulated, for instance, Kay (1997) rejects the property rights argument on the grounds that a company cannot be considered the property of its shareholder. He argued that
ownership entitles many different rights, including possession, use, management, income, capital, security, transmission, no limit of ownership term, duty not to do harm and residual control. Therefore, if a company really was the property of its shareholders then they would enjoy all these rights. However, Kay argues they only fully enjoy the no limit of term and residual control rights, and partially enjoy rights to management, income and capital rights, but have no enjoyment at all of possession, use, security, transmission and duty not to harm rights. Accordingly, Kay claimed no one owns the company and called for a stakeholder model of corporate governance where directors and managers serve a wide range of interests and not just those of shareholders. Additionally, Freeman (1983) argues that the notion of private property is misplaced and more attention should be given to corporate stakeholders. Moreover, Blair (1995:181) also rejects the argument that shareholders own corporations, she claims that shareholders owning equity are entitled to a part in a

bundle of rights which the owner of property possesses with regard to something- rights to possess, use, dispose of, exclude others, manage and control. The corporate concept divides this bundle of rights into several pieces. The stockholder gets the right to receive some of the fruits of the use of property, a fractional residual right in corporate property, and a very limited right of control. The rights to possess, use, and control the property go to the managers of the corporation. When property rights have been broken up into this way, trying to identify one party as the "owner" is neither meaningful nor useful.

Another argument to justify the shareholding perspective was made by Jensen (1991), who favoured utilitarian grounds for the shareholding perspective, arguing that when companies have maximising shareholder value as their long term objective, they make maximally efficient contracts with non-shareholders groups that will maximize the interests of both those groups and shareholders.

Thus, he claimed that:

Value-maximizing decision-making devotes resources to members of each important corporate constituency to improve the terms on which they contract with the company, to maintain the firm's reputation, and to reduce the threat of restrictive regulation. In this sense, there is no conflict between management's service to its stockholders and to other corporate stakeholders (Jensen, 1991:21).
This was also rejected by, Campbell (1997) who argues that giving the primacy to shareholder wealth maximization without considering the interests of other groups means that a company does not make optimum use of all its resources with a consequent loss of benefits to society. He adds "I support stakeholder theory not for some left wing reason of equity, but because I believe it to be fundamental to understanding how to make money in business" (P.446).

2.7.2 The Stakeholding Model of Corporate Governance

The word stakeholders can be traced back to 1963, when it was used in "an internal memorandum at the Stanford Research Institute" (Freeman and Reed, 1983:89). They added that it refers to "those groups without whose support the organisation would cease to exist" (ibid:89). The stakeholder theory\(^\text{1}\) starts its reasoning based on the premises that public companies do have an effect on lives and interests of many parties and as such it is inappropriate to be managed for serving the interests of shareholders only (Karmel, 1993).

In the early 1970s the Anglo-American countries began to witness changes in the business environment such as the rise of institutional investors. The time when concerns began to increase about company's social responsibility and their competiveness compared with the German and Japanese companies, where a more stakeholding perspective was prevalent (Gamble and Kelly, 2001). That is where the corporation was seen as "spontaneous and voluntary associations in which diverse individuals and interests collaborate for the creation and distribution of wealth" (The Clarkson Principles, 2002:257). Moreover, the stakeholding theory considers the corporation as real rather than fictional as assumed by the shareholding perspective, as such

\(^1\) It is also known as stakeholders model, stakeholder framework or stakeholder management (Freeman, 1984; Keay, 2010:4).

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It has a distinctive mind/will and capacity to act, has its own rights and duties and is responsible for its own actions and their consequences. Individuals in the corporation carry out duties and other activities and as such are not acting as independent persons but as organs of the corporate system (Letza et al, 2004:250).

Based on the changes in the business environment and the consideration that a corporation is a social entity (The Clarkson Principles, 2002) management should maximise the wealth of stakeholders and not the shareholders only (Freeman, 1984; Phillips 2003). These stakeholders can include

Persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future. Such claimed rights or interests are the result of transactions with or actions taken by, the corporation, and may be legal or moral, individual or collective. Stakeholders with similar interests, claims, or rights can be classified as belonging to the same group: employees, shareholders, customers and so on. (Clarkson, 1995:106).

Freeman and Reed (1983) have suggested two definitions for stakeholders, the first is the "wide sense of stakeholder" referring to any group or individual that affect the organisation and is affected by its achievements. This definition can refer to government agencies, customers, employees and shareholders. The second definition is "narrow sense of stakeholders" pointing to any group or individual "on which the organisation is dependent for its continued survival" (ibid:91). This can include employees, customers, certain suppliers and key government agencies.

Stakeholder theory has several versions (Donaldson and Preston, 1995); has many "interpretations, generalisations and definitions" (Stoney and Winstanley, 2001:605). Here the stakeholder theory faces an epistemological problem related to its acceptance and justification against other theories, where "the muddling of theoretical bases and objectives, although often understandable, has led to less rigorous thinking and analysis than the stakeholder concept requires" (Donaldson and Preston, 1995:73). However, these concerns regarding the grounds of the stakeholding theory do not undermine its

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15 Epistemology "is the word that defines how we conceptualize our reality and our images of the world" (Denzin and Lincoln, 2000:11).
usefulness as "fundamental to understanding how to make money in business" (Campbell, 1997:446).

According to Donaldson and Preston (1995), three types of stakeholder theory can be identified: these are the descriptive, instrumental and normative stakeholder theories. While, the descriptive version of the theory aims to describe and explain certain corporate features and behaviours, the instrumental version links the adoption of stakeholder management and achievement of corporate objectives, such as performance improvement. Finally, the normative version focuses on the identification of moral and ethical “guidelines” for corporate management to follow.

Linking corporate governance and stakeholder theory, two stakeholding models of corporate governance exist. The first being the normative model which stresses on the necessity of serving stakeholders interest by corporate governance arrangements, reflecting a logic of appropriateness to serve stakeholders. The second is the instrumental model that requires serving stakeholder interest as a means to an end, which is improving corporate performance (Letza et al, 2004; Donaldson and Preston, 1995).

To Donaldson and Preston (1995) the instrumental stakeholder theory and its claims that stakeholder management positively contributes to the organization economic performance are an insufficient justification for the stakeholder theory; accordingly, they consider the normative argument of the stakeholder theory being the only accepted justification of the theory.

The stakeholder theory identifies the corporate governance problem in the absence of stakeholders’ involvement, meaning whether there is a separation of ownership and control or not, the corporate governance structure should protect the interests of stakeholders’ and not solely shareholders (Allen and Gale, 2002; Krishnan, 2009); and try to align stakeholders’ interests (Keay, 2010)
Within this context Blair (1995:17) defines corporate governance as the system that “set the ground rules that determine who has what control rights under what circumstances, who receives what share of the wealth created, and who bears what associated risk”. She calls for a stakeholder approach of corporate governance where it should consider non-shareholder stakeholders whose relationship with the company contributes to the wealth creation process. This requires that a company’s board and management recognize that their job is to maximize the “wealth creating potential of the enterprise they direct” (ibid). She acknowledged that according to the situation, interest of particular stakeholders will be deemed more important than others. Blair (1995) argues that stakeholder definition should include those with investment at risk within the company, thereby resolving a controversial issue associated with stakeholdership perspective.

The concept of stakeholding has faced many objections from various researchers, for instance, Phillips (1997) argues that Freeman’s (1984) definition of stakeholder is impractical. He claims that although the identification of stakeholders who affect the company is straight forward (as one can clearly identify who can affect the accomplishment of his goal). This is not the case when identifying the stakeholders who are affected by the firm, especially that “Those whom the corporation affects may someday come to affect the firm’s operations” (P.53).

Furthermore, in their literature survey Nwanji and Howell (2007b) highlighted an important point of view, expressed by many researchers such as Elias et al (2003), Alkhafaji (1989) and Mitchell and Wood (1997) and at the same time confirms Phillips’s (1997) earlier argument, that is stakeholder identification is problematic, especially that the mix of parties defined as the company’s stakeholders is subject to change, with new parties possibly qualifying as new stakeholders and existing
stakeholders quieting the stakeholder orbit and thus making the identification of the company stakeholders a complex matter.

Sternberg (1997; 1999; 2001) saw many defects in the stakeholding approach. She agrees with above mentioned researches that the approach is impractical, arguing that having to serve a wide range of different and possibly opposing interests makes it difficult to adopt this approach in practice. Furthermore, Sternberg (2001) argues that the stakeholder approach does not provide an effective benchmark for judging directors' actions because in contrast to having the very specific aim of maximizing shareholder wealth laid down by the shareholding approach, its aim of serving a diverse range of interests means there is no clear objective against which judgment can be made. Essentially, this lack of a clear objective makes it much easier for them to maximize their own interests rather than that of the company (Sternberg 1997, 1999, 2001; Phillips, 2003).

2.8 Alternative Corporate Governance Theorizing

This section aims to present the principal criticism of the traditional corporate governance theorizing based on the shareholding v. stakeholding taxonomy. Then, the section proceeds with suggesting an alternative theoretical framework: The NIST and demonstrates how the fundamental aspects of NIST can produce a relatively better understanding of corporate governance by taking into consideration some crucial aspects ignored by the shareholding and the stakeholding underpinnings of the corporate governance phenomenon.

2.8.1 Criticism of Traditional Corporate Governance Theorizing

Criticism of the traditional corporate governance theorizing can be grouped into two groups. Firstly, criticism of the economic underpinnings of traditional corporate governance theorizing that forgoes capturing the complexities of social phenomena. Secondly, other criticism grounded on the inability of traditional theorizing to offer an
understanding of the corporate governance phenomenon within countries other than Anglo-American countries. This can be discussed in details as follows:

**Criticism of the Economic Underpinnings of Traditional Corporate Governance Theorizing**

The principal criticism addressed by scholars arguing for the need to adopt non-traditional corporate governance theorizing starts with the fundamental theoretical underpinnings of both the shareholding and stakeholding perspectives of corporate governance. According to Letza et al (2008:22) both the shareholding and stakeholding perspectives share a "normative rational model in... organizational analysis". Although each perspective has its particular worldview both share rationality and efficiency notions (ibid). The principal-agent (shareholding finance model of corporate governance) is highly based on the efficiency theory, while, the stakeholder model, despite its focus on corporate ethical behaviour and social responsibility, posits that "ethical business is more rational and more efficient" (ibid: 23-24). This is also acknowledged by Edward Freeman "The problem with focusing on a single objective is that the world is complex, and managers and directors are boundedly rational (at least we can meet economists on their own assumptions)" (Freeman et al, 2004:366). Here, this would indicate that the shareholding perspective would qualify as a version of the stakeholder theory (Letza et al, 2008; Shankman, 1999). As such it can be argued that both perspectives share similar economic underpinning.

The pre-eminence of the traditional corporate governance perspectives is itself a main obstacle to develop corporate governance body of knowledge (Learmount, 2002). As scholars criticizing the economic theories underpinning corporate governance are usually ignored (ibid).

This economic framework which underpins the main stream of corporate governance research is criticized on the grounds that it ignores that corporate governance is a social
process embedded in particular contextual factors that indeed differs from one environment to another (Letza and Sun, 2002; Aguilera and Jackson, 2003; Letza et al, 2004; Kirkbride et al, 2005; Mason et al, 2007; Ardalan, 2007; Letza et al, 2008). These contextual factors are crucial determinates of a particular corporate governance system and can include many non-economic factors such as "power, Legislation, social relationships and institutional contexts" (Ardalan, 2007: 511). Also may include "politics, ideologies, philosophies, legal systems, social conventions, cultures, models of though (Letza et al, 2004: 258)

Moreover, the traditional corporate governance theorizing based on the economic foundations of efficiency and rationality is criticized because of its narrow perspective that is incompatible to study a complex social phenomenon such as corporate governance. It adopts a closed system approach of organizational analysis, especially the shareholding perspective (Aguilera et al, 2008) which makes traditional corporate governance perspectives as "isolated from social and other non-economic conditions" (Letza et al, 2008: 256).

It is thus argued that corporate governance analysis should rather adopt an open system perspective for organizational analysis (Aguilera et al, 2008; Filatotchev and Boyd, 2009). This is because an open system perspective

stresses the complexity and variability of the individual parts ..... Many heads are present to receive information, make decisions, direct action ..... System boundaries are seen as amorphous and transitory; the assignment of actors or actions either to the organization or to the environment often seems arbitrary ..... The cultural-cognitive dimension of social life looms large in the open systems perspective, great attention is devoted to information flows and sense-making activities. Organizations create, but also appropriate knowledge, know-how, and meaning from their environments (Scott, 2003: 101).

16 To some scholars the stakeholding approach is closer to an open system approach to corporate governance because it "recognizing that the effectiveness of corporate governance practices depends on a wider set of firm-related actors ..... Stakeholder theory shifts attention from efficiency arguments ..... Towards a broader understanding of effectiveness" (Connolly et al 1980 cited in Aguilera et al, 2008: 476). However, still the stakeholder approach is grounded on economic underpinnings which makes it together with the shareholding as "isolated from social and other non-economic conditions" (Letza et al, 2009: 256)
This means that if corporate governance research adopts an open system perspective, corporate governance analysis will attend for its surrounding social context.

Finally, the economic perspective looks at corporate governance as a static object which is "less compatible with the fluidity and diversity of practical reality" (Letza et al., 2004: 257). On the contrary, corporate governance is a socially embedded complex phenomenon that requires analysis on a dynamic processual basis to be able to explain "the temporary, transient and emergent patterns of corporate governance on a historical and contextual basis in a given society" (Ardalan, 2007: 511). Moreover, deploying a dynamic processual approach to corporate governance analysis is needed because the static approach that promotes an ideal solution to corporate governance problems has obviously failed, one could find no better example than the global financial crisis that fiercely hit the Anglo-American countries, where the traditional corporate governance perspective is prevailing. Simply putting it, the static approach assuming an objective, single social reality detached from the social and non-economic conditions is inappropriate (Letza and Sun, 2002; Letza et al., 2004; Kirkbride et al., 2005; Ardalan, 2007; Letza et al., 2008, Aguilera and Jackson, 2003). While, a processual approach is favoured because "it acknowledges that corporate governance is changeable, corporate governance models around the world have developed from their own unique cultural, historical and social circumstances .... each model will continue to evolve" (Letza et al., 2004: 258)\(^\text{17}\).

\(^{17}\) In addition to the above mentioned reasons that economic underpinnings fails to capture the complexities of the corporate governance phenomenon. Letza et al (2008) provides a comprehensive account and careful scrutinizing of the theoretical assumptions of the efficiency theory that underlies both the finance model (Principal – agent) of corporate governance as well as the stakeholders model. It should be noted that though the latter has a wider scope that covers ethical aspects of the corporation, it does not deny the concept of economic efficiency and rationality. As such illustrating the short comings of the efficiency theory that reduce its utility in addressing corporate governance would be useful. (ibid).

According to Roy (1997), efficiency theory posits that various actors engaged in production and service providing compete over scarce resources "so that only the efficient survive" (P.8). Here, the economic system shaped "the structural selection of efficient actors" (ibid). Here, Roy (1997) question the efficiency theory and its over consideration of the efficiency notion does not mean that efficiency takes place in absence of other social processes. Letza et al(2008) criticize the efficiency
Other Criticism of Traditional Corporate Governance Theorizing

Many researchers criticise traditional theorizing of corporate governance on different grounds. Firstly, these theories have emerged within a particular consideration of what corporation is and what purpose it should serve (Zingales, 2000). Though, these conceptions are highly appreciated, being valid in previous times would not extend their validity nowadays, it is even argued that this dualistic approach:

*Sets its roots in long standing philosophical traditions... entrenched in unrealistic theories, shareholders short-term maximization of wealth leads to system abuses such as we have seen in the dramatic financial scandals through history... stakeholders interest maximization can lead to*

theory as a ground for the traditional corporate governance theorizing due to its inability to explain a complicated social phenomenon such as corporate governance, their criticism can be summarized in the following:

- "Efficiency theory assumes a singular decision making entity" although "decision making is a social process in which actors are involved in negotiating based on their mutual and conflicting interest" (ibid.: 24).
- Efficiency theory "assumes a pure and free market in which resources are evenly distributed and actors have the same chances and abilities to utilize resources", while the reality is quite the opposite as both resources and economic power are "unevenly distributed and controlled by key decision makers" (ibid)
- Efficiency theory does not explain the reasons that justify rational choices made by actors, neither it explain what makes these choices are deemed rationally and not others. Finally, it ignores the impact of other business actors.
- The efficiency theory ignores the "social conditions and interconnections in making choices" (ibid).

Moreover, following (Rescher, 1988) Letza *et al* (2008) criticize the economic approach utilized by the traditional corporate governance theorizing on the basis that economists suppose that rationality equals utility maximization, meaning that actors to be deemed rational they have to "maximize a meaningful and measurable utility" (ibid). However, having a measure of utility "is oversimplified and unrealistic in describing the real world" (ibid). Furthermore, Letza *et al* (2008) criticize the economic rationality and efficiency being a limited conception that forgoes the "Complex and many-sided nature of rationality" (ibid: 25). They highlight that the concept of rationality is a survival instrument of humans rather than an apparatus that uses the actors' intelligence to achieve the best possible results. They reiterate (Rescher, 1988) view of rationality as: "It is a mean to adaptive efficiency, enabling us - sometimes at least - to adjust our environment to our needs and wants rather than the reverse" (Rescher, 1988:2).

Finally, the economic logic of corporate governance is a narrow perspective to look at corporate governance because it cannot explain complicated social phenomenon .... ignores the question of how .... Constituents are organized and constructed into products which are more valuable than separate ingredients ... neglect the human condition .... Characterize people not as human beings ... but in terms of their utility to capital as labour ......(Consider) The social world .... To exist without the social .... Present us with myth, relating a static and not human nature of knowledge, which poses perhaps the essential problem with the dominant economic logic in corporate governance. ... Argue that exante design of appropriate governance structure can largely solve governance problem .... this fails to consider dynamism of choice. (ibid: 23-26).

Moreover Learmount (2002) and Ghoshal and Moran (1996) warns that the normative economic theories can have some dangerous implication of encouraging the type of behaviour they assume.
corporation's assets waste and diversion. Governance analysis must serve as a means to organize, structure and to establish an efficient prioritization of interests (Carrillo, 2007:99).

As such, their assumptions and reflections on corporate governance understanding need questioning (Letza and Sun, 2004; Letza et al, 2004; Letza et al, 2008).

While modern business corporations being “purely human capital firms... whose main assets are key employees, is changing the very nature of the firm... the changing nature of the firm forces us to re-examine much of what we taken for granted” (Zingales, 2000:1641). Then, the role of human resources in corporate governance should be central in shaping corporate governance systems and therefore, should not be forgone in corporate governance analysis.

Secondly, Ratnatunga and Ariff (2005) argue that every organization operates under its particular “contextual factors”, where they need to adapt their governance systems to create shareholders value and be attractive to potential investors. Additionally, they argue, that although globalization has initially led to adoption of the traditional corporate governance perspectives “there is little evidence to show that there should have or will be implemented widely, especially after the famous corporate collapses such as Enron, WorldCom and Paramalat” (P.10).

Thirdly, although, the shareholding model of corporate governance model has been dominant in the Anglo-Saxon countries for long times (Judge, 2009); and is considered the more appealing alternative to other countries to acquire resources from the global capital market (Lee and Yoo, 2008); It is now criticised for lacking the consideration to the market dynamics of companies operating in different non-Anglo-Saxon countries (Lubatkin et al, 2005) as well as developing countries (Aguilera and Jackson, 2003). Where much of the assumptions applicable in market based systems such as low degree of ownership concentration, limited bank holdings and timely information are not realizable in Africa for instance (Rwegasira, 2000). As such a need for non-traditional
Theorising of corporate governance is asserted (Judge, 2009). Theorising that considers shareholders and other non-share owning stakeholders’ interests interrelated and reciprocally supportive of each other rather than competing and mutually exclusive (Letza et al, 2008).

Fourthly, when corporate governance is seen from an international perspective, it can be observed that differences among countries exist in terms of character and extent (Durisin and Puzone, 2009). A recent survey of corporate governance research covering the period (1993-2007), asserts that empirical corporate governance research undertaken in various countries shows that what is "... valid in one institutional context, cannot be generalised to other contexts" (Judge, 2007 cited in Durisin and Puzone: 2009: 279). Moreover, "It is the study of different institutional settings comparatively and contemporarily that promises to revise and extend our global understanding of corporate governance" (ibid: 2009: 280).

Fifthly, corporate governance improvements and reforms take place post corporate governance crisis (Kirkpatrick, 2009; De Larosiere et al, 2009), in the form of new and updated corporate governance rules and standards, in itself, this indicates that "other local contexts and various factors" (Letza et al, 2008) play an important role in shaping corporate governance. Indeed, these contexts and factors are not part of traditional corporate governance approaches. Otherwise, they would have prevented failures to occur. Here one can argue that crises associated with corporate governance failure, should have encouraged theorists and policy makers to question the traditional theorizing of corporate governance rather than naively continuing improving corporate governance best practices that did not stop failures from occurring, Carver (2007) raise this issue.

... to think that codes and incremental improvements—even so called “best practices” can make more than piecemeal advances is folly. So we forge ahead, developing this best practices, then this rarely going back to first principles nor even searching for what they might be... trapped in a disastrous set of habits" (Carver, 2007: 1031).
Sixthly, Smallman (2007) argues that the extant corporate governance literature
treat governance as the context of other causal processes they do not study governance per se. But instead take governance in the frame within which other phenomena are clear... the objective of these studies... to test series of reactions to governance (P. 242).

Finally, Smallman (2007) calls for corporate governance theorizing to seek more meaningful evidence that can "inform and improve practice" (P. 246).

2.8.2 Concluding Remarks on Corporate Governance Theorizing

The previous section has presented various criticism directed at the traditional corporate governance theorizing. On the one hand the economic underpinnings of the traditional corporate governance theorizing were exposed showing the inability of traditional theorizing based on the economic notions of efficiency and rationality to conceptualize corporate governance as a social process embedded in particular contextual non-economic factors that vary from one context to another. Thus, considering corporate governance as a static, taken-for-granted phenomenon, detached from the environment, adopting a closed system perspective to organizational analysis.

On the other hand, other criticism includes: the inability to continue utilizing the traditional corporate governance theorizing today, neglecting the ever changing nature of organizations when these approaches were developed (Zingales, 2000). As such disregarding the variation between organizations observed at the national level where variation is observed between organizations sharing the same macro-environment (Ratnatunga and Arif, 2005). Moreover, the characteristics of the Anglo-American markets such as low degree of ownership concentration, limited bank holdings and timely information are unrealizable in other economies such as Africa (Rwegarsia, 2000), making the traditional corporate governance models hardly transferable.

Furthermore, traditional corporate governance models failed to prevent corporate governance related scandals even in Anglo-American countries, the global financial crisis stands as a good example of such allegation (Kirkpatrik, 2009; De Larosie're et al, 2009). Finally, traditional corporate governance theorizing deals with corporate
governance as an explanatory factor of other phenomena rather understanding corporate governance itself (Smallman, 2007).

In conclusion, an alternative theoretical framework should deal with some or most of the above mentioned criticism. An approach that looks at stakeholders including shareholders on the basis that their interests are supportive, interrelated and not essentially mutually exclusive (Letza et al, 2008; Vitals, 2004). This encourages more effort to be directed at utilizing an alternative theoretical perspectives that account for factors shaping corporate governance practices which offer a better explanation to "corporate governance practices and outcomes throughout the global economy" (Aguilera and Jackson, 2003; Lee and Yoo, 2008; Judge, 2009: iii).

Reviewing the literature indicates that there is a growing body of research that utilizes the NIST in examining corporate governance as it offers a better understanding of the corporate governance phenomenon and as such enables finding better ways to improve corporate governance practices (Judge et al, 2008; Chizema and Buck, 2006; Seal, 2006; Zattoni and Cuomo, 2008; Lee an Yoo, 2008; Chizema, 2008).

The following section will present an overview of NIST and its basic features and shows how utilizing a NIST theoretical framework would provide a better understanding of the corporate governance phenomenon, hence better inform policy making related to corporate governance reform.

2.8.3 The Neo-Institutional Sociological Theory as an Alternative Theoretical Framework for Corporate Governance

This section endeavours to demonstrate how the NIST can serve as an alternative theoretical framework for corporate governance. However, as the body of knowledge of the NIST is quite enormous because "institutional theory is not a single, unified system of assumption and propositions, but instead a rather amorphous complex of related ideas, a broad theoretical perspective or family of approaches" (Scott, 2004: 408). This
section will present an overview of the NIST, its characteristics and its fundamental concepts. Then, it will show how NIST can provide a better understanding of corporate governance that can deal with the shortcomings of traditional corporate governance theorizing as discussed in the previous section.

2.8.3.1 Overview of NIST

Reviewing the literature in the domain of the institutional theory or institutionalism reveals that two generations of the institutional theory exist: old and new institutionalism (Scott, 1995; 2005b; Peters, 2005). To some extent the old institutionalism inspires the new version; however, the impact varies according to the institutional schools of thought\(^\text{18}\) (Scott, 2005b). NIST has gained much of the contemporary social scientists focus compared to the older version, especially that it provides the theoretical "aspirations and motivation" associated with contemporary social science (ibid: 3). While, the old institutionalism had been more descriptive regarding the examined phenomenon and did not offer the abstract theoretical insights as the new version (ibid). More importantly, while the old institutionalism emphasize "issues of influence, coalitions and competing values... power and informal structures" (Clark, 1960, 1972; Selznick, 1949, 1957 cited in Greenwood and Hinings, 1996: 1022). NIST emphasize legitimacy, the embeddedness of organizational fields and centrality of classification, routines, scripts and schema (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). Furthermore, NIST focuses on the "deeper and resilient aspects of social structure" (Scott, 2005c: 460). Sandhuc (2009) indicated that obviously during the last 30 years the NIST has developed and moved from "adolescence" (Scott, 1987) to "maturity" (Scott, 2008: 15).

\(^{18}\) There are various institutional schools of thought within the new institutionalism, according to Taylor and Hall (1996) there is historical institutionalism, rational choice institutionalism, and sociological institutionalism. However, the focus of this thesis is the sociological institutionalism for the reasons stated at the end of this section.
Scott (2005c) adds that NIST encompasses

The processes by which structures, including schema, rules, norms, and routines, became established as authoritative guidelines for social behavior. It inquires into how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse .... Perforce attend not just to consensus and conformity but to conflict and change in social structures (Scott, 2005c: 460).

NIST is very much interested in analyzing the relationship between an organization and its environment (Sandhu, 2009). Scott (2001) considers that NIST is a continuation of the open systems theory application in organizational analysis. As such NIST attends to the "importance of the wider context or environment" (ibid:xx). The impact of external environment can take many dimensions including constraining, shaping, penetrating and renewing of organizations (ibid).

With recent developments in NIST recognizing the wider environment (institutional environment) impact on organizations including social and cultural forces (ibid), there was a shift in the organization conception seen not only as production systems but as social and cultural systems (ibid). In essence, NIST emphasize on the impact of external environment on organizations, it acknowledges that the impact is not technological or material based but more importantly is based on cultural and symbolic aspects (Powell and DiMaggio, 1991).

NIST has challenged the idea that "the institutional forms and procedures" adopted by organizations are adopted based on being the most efficient for carrying-out various tasks. More precisely, organizations are not adopting such forms and procedures based on the economic conceptions of rationality and efficiency. Rather, new institutionalism argues that this occurs because these forms and structures are "culturally specific practices akin to myth and ceremonies devised by many societies and assimilated into organizations" (Hall and Taylor, 1996: 946).

Meyer and Rowan (1977) have clearly stated that organizations adoption of formal structures takes place regardless of the efficiency notion.
organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures (P. 340).

As such organizations adopt particular institutional forms or practices that are widely accepted and appreciated within the broader “cultural environment” (Hall and Taylor, 1996).

Institution can be defined as

social structures that have attained a high degree of resilience ... are composed of cultural-cognitive, normative, and regulative elements that together with associated activities and resources, provide stability and meaning to social life ... are multifaceted, deniable social structures, made up of symbolic elements, social activities, and material resources (Scott, 2001: 48-49).

Obviously, NIST is considered as a departure from the interpretations of institutions based on the economic conceptions of rationality and efficiency (Mason et al, 2007).

Equally important, institutionalization can refer to different meanings; it can be seen as a process or as an outcome (Tolbert and Zucker, 1996; Sandhu, 2009). Reiterating Selznick (1996) and Tolbert and Zucker (1983); Zajac and Westphal (2004) indicate that the institutionalization process refers to “The social construction process by which organizational policies became instilled with value and ultimately taken-for-granted among external constituents” (P. 440). From a social constructionist perspective “Institutionalization occurs whenever there is a reciprocal typification of habitualized actions by types of actors” (Berger and Luckmann, 1967: 72).

Thus institutionalization process entails “the process by which institutions are produced and reproduced. It is a social process by which individuals come to accept a shared definition of social reality that enacts the institution” (Scott, 1987: 496).

19 “typification entail classifications or categorizations of actors with whom the actions are associated” (Tolbert and Zucker, 1996: 174).

20 “Habitualized actions reflect behaviors that have been developed empirically ... such behaviors are habitualized to the degree that they evoked with minimal decision-making effort” (Tolbert and Zucker, 1996: 174).
As such the institutional theory emphasizes the influence of meanings and "construction and maintenance of institutional realities within organizations" (Mason et al, 2007: 292).

On the other hand institutionalization as an outcome refers to the final state of the institutionalization process (Tolbert and Zucker, 1996). "Something is institutionalized when it is unquestioned and taken for granted" (Hasselbalch and Kallinikos, 2000 cited in Sandhu, 2009: 82).

Dillard et al, (2004) differentiates between institutionalization as a process and outcome on the grounds that the former emphasis the conception of "power of organized interests and actors who mobilize around them" (P. 510). While, the latter, neglect the role of power and group interests. As an outcome institutionalization puts the organizational practices and characteristics out of reach of group interests and politics, here organizations passively conform to institutions to maintain their legitimacy and survive (ibid).

2.8.3.2 Legitimacy

The notion of legitimacy is central to NIST, because of the behaviour constraining nature of institutions; they operate through "defining legal, moral, and cultural boundaries setting off legitimate from illegitimate activities" (Scott, 2001: 50).

Legitimacy refers to "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 574).

Indeed, organizations actively seek legitimacy as they need more than "material resources and technical information if they are to survive and thrive in their social environments. They also need social acceptability and credibility" (Scott et al, 2000: 237).
Furthermore, legitimacy may lead to better access to resources because stakeholders are more likely to provide their resources to legitimate rather illegitimate organizations (Parsons, 1960). Finally, legitimacy affects how people act towards organization and how they perceive them, as such “audiences perceive the legitimate organizations not only as more worthy, but also as more meaningful, more predictable and more trustworthy” (Suchman 1995: 575). Finally, Legitimacy cannot be a commodity subject to exchange; rather it is a condition that reflects “cultural alignment, normative support, or consonance with relevant rules of law” (Scott, 2001: 45).

Organizations may seek three types of legitimacy pragmatic, moral and cognitive legitimacy. Pragmatic legitimacy is based on “self-interested calculations” of an organization regarding its most direct audiences (ibid: 598). Pragmatic legitimacy can be related to these audiences well-being. This can be related to their social, economic or political well-being (ibid).

Moral Legitimacy is based on normative grounds and focuses on the extent to which an organization is judged as doing the “right thing” rather than on the extent to which a given activity that the organization carry-out benefits the evaluator (Suchman, 1995). It reflects how the audience think of the organizations' activities promoting the “social welfare” (ibid: 579). Indeed, Judgment here is framed by the socially constructed value system (ibid).

Cognitive legitimacy is that type of legitimacy that is neither based on serving particular interests nor being evaluated as doing right things. It is based on the acceptance of an organization “as necessary or inevitable based on some taken-for-granted cultural account” (ibid: 582). This type of legitimacy reflects a “preconscious standards” related to how organizational activities should be performed (Mason et al, 2007: 293).
2.8.3.3 Isomorphism and the Three Pillars of Institutionalism

Scott (1995, 2001) has developed a useful model exposing three types or pillars of institutions: Regulative, Normative and Cultural-Cognitive systems (Scott, 2001). He has developed this model to illustrate various elements of institutions (Scott, 1995). These elements demonstrate "different bases of order and compliance, varying mechanisms and logics, diverse empirical indicators, and alternative rationale for establishing legitimacy claims" (Scott, 2005c: 464). Moreover, each of the three pillars offers an ingredient for explaining institutions.

Before discussing the three pillars of institutions, it should be noted that each of these pillars in essence discusses a type of institutional change, not in a temporal sense but as a manifestation of how various institutional mechanisms brings about structural similarity (Isomorphism) between organizations seeking legitimacy.

Building on Weber (1967), DiMaggio and Powell (1983) are credited with advancing the concept of institutional isomorphism. They consider that highly structured organizations "provide a context in which individual efforts to deal rationally with uncertainty and constraint often lead, in the aggregate, to homogeneity in structure, culture, and output" (ibid: 147).

DiMaggio and Powell (1983) consider that although organizations can change their objectives or engage in new practices and that new organizations can enter in the field of certain profession, in the long-run "organizational actors making rational decisions construct around themselves an environment that constraints their ability to change further in later years" (ibid: 148). This tendency towards stability is driven by legitimacy seeking rather than enhancing performance (ibid).

This argument is backed by Meyer and Rowan (1977), who consider that formal organizations emerge in a highly institutionalized context, where organizations are forced to adopt "practices and procedures" defined by the prevailing rationalized
concepts of organizational work and institutionalized in a particular society. Moreover, they consider that these rational concepts acts as powerful myths that are adopted by organizations on ceremonial basis regardless their contradiction with the criteria of efficiency that in this context can decrease the degree of legitimacy an organization seeks. Finally, Meyer and Rowan (1977:346) have claimed that organizational structures are shaped by their environments, to which they tend to be "isomorphic". Due to either technical and exchange interdependency or because organizations reflect "a social construct reality" as such they are affected by the environments where they exist.

DiMaggio and Powell (1983:150) accept Aldrich (1979:265) argument that the most important factors that organization must consider are other organizations. Furthermore, they added that competition between organizations is not limited only to customers and resources but also for "political power, institutional legitimacy... as well as economic fitness" (ibid: 150). As such the concept of institutional isomorphism is well suited to explain the processes of achieving such legitimacy and power.

DiMaggio and Powell (1983:150) identified three types of mechanisms that bring about institutional isomorphic change; these are the coercive, mimetic and normative isomorphism. Here these mechanisms can be linked together with Scott (2001) three pillars of institutions; these mechanisms are utilized by the regulative, normative and cultural / cognitive pillars respectively (Scott, 2001).

Firstly, the regulative pillar gives priority to "rule setting, monitoring and sanctioning activities" (ibid: 52). Here the regulatory process includes the capacity to "establish rules, inspect others' conformity to them, and, as necessary, manipulate sanctions .... in an attempt to influence future behavior" (ibid). Regulatory process includes both informal and formal mechanisms; the latter can be assigned to specialized actors such as police. This pillar utilizes coercion as its primary mechanism. Indeed, this type of
institutions demonstrated how powerful actors can “impose their will on others, based on the use of threat of sanctions .... coercive power is legitimated by a normative framework that both supports and constraints the exercise of power” (ibid: 53). In summary, Scott (2001) indicates that the proper functioning of the regulative pillar of the institutions does not occur without unintended effects. Although, rules and laws are usually accompanied with surveillance and sanctioning powers. It should be known that this system is not “fool proof” and that conformity with rules and laws occur seeking legitimacy, however, this conformity could be by appearance rather than essence (Suchman, 1995).

The second institutional pillar is the normative pillar. This pillar is based on “normative rules that introduce a prescriptive, evaluative, and obligatory dimension in social life (ibid: 54). This dimension depends on values and norms as the basis of social obligation (ibid).

According to DiMaggio and Powell (1983) normative pressures can bring institutional change to organizations, normative isomorphism occurs from professionalization, which is “the collective struggle of members of an occupation to define the conditions and methods of their work, to control the production process, set-up a cognitive basis and seek legitimacy” (ibid: 152). Forms of professionalization can include formal education or professional networks through which new models of organization can emerge.

Thirdly, Cultural-Cognitive pillar of institutions focus on the significance of culture as the “shared conceptions that constitute the nature of social reality and frames through which meaning is made” (Scott, 2001: 57). Here, reality is constructed through interaction of individuals to create interpretations of what is going on in the surrounding

21 values refer to “conceptions of the preferred or the desirable” (Scott, 2001: 54)
22 Norms specify how things should be done; they define legitimate means to peruse valued ends” (Scott, 2001: 54). Effective operation of norms requires their internalization which means that should be taken for granted by various organizations (Mizruchi and Fein, 2005).
environment (Scott, 2004). Within organizational analysis, this pillar explains how organizational structures and behaviour is shaped not only by technical aspects but also by cultural rules promoted within the external environment (ibid). Here compliance of organizations with these cultural rules occurs because other types of behaviour cannot be understood (Scott, 2001). According to DiMaggio and Powell (1983) Meyer and Rowan (1977) and Scott (2001) mimetic isomorphism is the mechanism in operation under this pillar, as such organizations change overtime to be more like other organizations through imitation. Here the wider belief systems and cultural rules are adopted by organizations to deal with uncertainty or ambiguity. Organizations tend to imitate other successful organizations "to avoid being noticed as different" (Scott, 1995: 45). Mimicking other successful organizations is perceived as improving survival chances (Khadaroo and Shaikh, 2007) as survival is related to achieving legitimacy based on cultural support of what is understood and considered correct (BenMassoud, 2002).

It must be noted here that, the three pillars of institutions "may not be aligned ... one may undermine the effects of the other" (Scott, 2005c: 466). In practice these pillars provide different perspectives, not essentially mutually exclusive, rather dependent on the ways through which organizations interact with institutions of various types and mechanisms (Coercive – Normative – Culture/Cognitive) and accordingly structure themselves in accordance to the institution in operation; then with the institutionalization23 of organizational practices and structures, legitimacy is achieved (DiMaggio and Powell, 1983; Scott, 2001; 2005b; Mizruchi and Fein, 1999).

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23 Meyer and Rowan (1977) defines institutionalization as a process "by which social processes, obligations, or actualities come to take on a real like status in social thought and action" (P.341).
2.8.3.4 Organizations’ Strategic Responses to Institutional Pressures

NIST was commonly considered as a deterministic theory with emphasis made on environmental norms as explaining organizational responses (Judge and Zeithaml, 1992). This underlies that organizations would not have varied strategic responses to the institutional pressures imposed by the environment (Greenwood and Hinigs, 1996). However, Scholars such as Oliver (1991, 1997) and Greenwood and Hinings (1996) as well as Roberts and Greenwood (1997) have argued for the contrary. They indicated that though institutions are constraining by nature, organizations can respond differently to institutional pressures.

Greenwood and Hinings (1996) pointed out that institutional pressures can provide somewhat inconsistent signals to different organizations leading to variation in practices. Moreover, they also indicated that institution's clarity and salience “may change overtime” and that intra-organizational dynamics affect acceptance or rejection of institutionalized practices (ibid). Lounsbury (2001) has also acknowledged the variation of organizational behaviours and practices facing institutional pressures. Reiterating Meyer and Rowan (1977), Lounsbury (2001) indicated that variation in organizational responses to institutional pressures can be “substantive or merely ceremonial” (P.50).

Oliver (1991:152) provides a framework of various organizational strategic responses in response to institutional pressures. These strategies include: Acquiesce, compromise, avoid, defy and manipulate. Acquiesce strategy is adopted by organizations that agree and comply with the institutional pressures, thus change their structures and procedures accordingly. Compromise strategy refers to the second alternative adopted when acquiesce seems difficult due to conflict between institutional expectations and organizational internal objectives. In essence compromise involves political barging and balancing of conflicting interests (Khadaroo and Shaikh, 2007). Another response may
be to avoid the institutional pressure. This involves the organizational hiding of their non-compliance. This can occur by establishing plans and procedures in response to institutional requirements but on ceremonial basis, in essence these organizations do not implement these procedures or plans but disguise their non-compliance.

Dillard et al (2004) indicate that these organizations maintain the appearances of institutionalized practices and structures and as such achieve legitimacy; this case is referred to as decoupling (Meyer and Rowan, 1977). Moreover, organizations can avoid institutional pressures by changing their activities thus escaping the domain where the institutional pressures are exerted. Another organization may adopt defy strategy this involves direct and open challenging, dismissing or even attacking the source of institutional pressure. Finally, an organization may manipulate institutions by trying to influence or dominate and control them.

2.8.3.5 Analysing Corporate Governance from a NIST Perspective

As shown earlier in section 2.8.1 that the traditional corporate governance theorizing has been criticized on the grounds that its economic underpinnings are not well suited to explain a complex social phenomenon such as corporate governance. At the same time, it was criticised because of its limited ability in guiding policy making and corporate governance reform because it is unable to deeply understand the social construction of corporate governance phenomenon. As such the need to alternative theorizing venues is highly encouraged (Letza and Sun, 2002; Aguilera and Jackson, 2003; Letza et al, 2004; Kirkbride et al, 2005; Mason et al, 2007; Ardalan, 2007; Letza et al, 2008).

Departing from this point, NIST theory is argued to offer a more fruitful venue for corporate governance theorizing. This argument is based on the following premises:

1- NIST focuses on the "deeper and resilient aspects of social structure" (Scott, 2005c: 460). It emphasizes the embeddedness of organizations in social structures such as routines, scripts and is attentive to the legitimacy conception as a reason behind
organizational change rather than rationality and efficiency (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). “It inquires how social structures are established, diffused, adopted and adapted over space and across time” (Scott, 2005c:460). It is interested in organizational conformance as well as conflict and change with such social structures (ibid). It looks at organizations as an open system (Scott, 2001, 2003). It considers that organizations are social and cultural systems not only production systems (Scott, 2001). NIST emphasizes the influence of meaning and institutional realities creation and maintenance within organization (Mason et al, 2007). Therefore, NIST is well suited to study and examine social phenomenon such as corporate governance. This is particularly important for corporate governance theorizing and can offer deeper understanding of corporate governance phenomenon. Moreover, the social approach to corporate governance is argued to be much more useful than the economic approach because it acknowledges that corporate governance is a social dynamic process (Ardalan, 2007) thus compatible with the “fluidity and diversity of practical reality” of corporate governance (Letza et al, 2004: 257).

The social approach to corporate governance thus recognizes the diversity of corporate governance systems in various contexts, as influenced by

unique cultural, historical and social circumstances. It acknowledges that each system will continue to evolve ... never assume that any single or extreme model can perfectly work in practice. A firm is neither a purely private nor a purely public affair. A firm not only consists of physical assets, but also of human beings ... views the social reality as fundamentally interconnected, interdependent, and mutually influential .... Firm is not independent of its constituents ... it is a pluralistic approach that realizes corporate governance not only influenced by economic logic ... but also by politics, ideologies .... Social conventions .... Cultures ..... does not intend to design and specify any ideal model of governance in practice ... that can be offered as a once- and for- all solution ..... in a business setting it involves the design and management of the organization through Juxtaposition of competing viewpoints in a constant process of a dynamic tension with no pre-set (Ardalan, 2007: 511-512).

2- Corporate governance is an institution itself (Scott, 1987; Ha, 2001) that is affected and affect the wider institutional environment “organizational governance arrangements must take into account..... wider institutional conditions ... overtime their choices feedback to affect environmental conditions, including institutional
As such looking at governance within and organizational context would be best explored by NIST as a theory addressing organizations- institutions interaction within an open systems perspective.

3- Institutionalization process is essentially attentive about the role of the conception of power and actors' interests and how these respective powers mobilize the institutionalization process (Dillard et al, 2004). Furthermore, institutional view of organizations emphasis formal and informal structures such as "Power Cliques" (Mason et al, 2007: 292). Moreover, Power is central to the operation of the regulative pillar of institutions (Scott, 2001). From this angle, "Institutionalization is a political process, and the success of the process and the form it takes depends on the relative power of the actors who strive to steer it" (Powell, 2008: 5). Indeed, power concept is central to corporate governance seen as "the exercise of power at the level of the corporate entity" (Tricker, 1995: 59). As such, from this perspective NIST is well suited to explain corporate governance. Moreover, as NIST pays attention to both power and legitimacy conceptions. It can offer interpretations regarding the reasons that led the emergence of a particular corporate governance model within a particular context. As power indicates whom interests should be protected, indeed, this provides the very basis of pragmatic legitimacy. 

4- As NIST acknowledges that various types of institutional pressures (Regulative, Normative, Cognitive-Cultural) can bring about institutionalization (Scott, 2001) through coercive, normative and mimetic isomorphism respectively (DiMaggio and Powell, 1983). Applying this conceptual framework can clarify the interaction between these pressures and identify which of them play more crucial role in a particular context, therefore guide corporate governance reform in a more effective way. Moreover,

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24 Moral and Cognitive legitimacy are based on normative and orthodoxy logics rather than the instrumentality basis assumed in the pragmatic legitimacy. Indeed, the role of power of actors is apparent in the case of pragmatic legitimacy than the other two types.
utilizing NIST to examine and understand the corporate governance phenomenon is quite important to policy makers as the issuance of corporate governance codes is generally derived by "legitimation reasons than by the determination to improve governance practices of national companies" (Zattoni and Cuomo, 2008:1). As such, the institutional analysis can clarify the legitimization process, the types of legitimacy sought and the institutional pillar related to corporate governance. Hence better inform policy makers what needs to be done on their reform agenda.

5- Corporate governance studies undertaken in emerging or less developed countries have asserted the ability of NIST in explaining how the corporate governance phenomenon occurs and the factors involved per se. For instance Siddiqui (2010) investigated corporate governance in Bangladesh, Khadaroo and Shaikh (2007) studied Malaysia. Also other researchers have utilized NIST for corporate governance theorizing in other developed countries such as Japan (Yoshikawa et al, 2007), UK (Mason et al, 2007) Australia (Deo and Irvine, 2007) and France (Ben-Messaoud, 2002). In addition to the utilization of NIST framework to examine corporate governance phenomenon in cross-national contexts for example Aguilera and Jackson (2003); Aguilera and Cuervo-Cazurra (2004) Zattoni and Cuomo (2008).
Part Two: Corporate Governance in Banking Organizations

Literature

This part discusses corporate governance from a banking perspective. Firstly, it discusses corporate governance in banking organisations, where the gap in relation to BCG research is highlighted showing that insufficient concern was given to corporate governance of banks and in particular in developing countries. Then, it discusses corporate governance problems in banks identifying the reasons behind these particular problems. Also, it explains the special issues of banks' corporate governance in developing countries. Finally, it discusses the corporate governance model that is likely to be acceptable internationally by the banking industry.

2.9 Corporate Governance Significance in Banking: An Overview

Research into corporate governance has vastly increased during the last two decades. Initially, most of it addressed corporate governance in the US and UK along with some attention to other developed countries such as Japan and Germany (Shleifer and Vishny, 1997). Recently though, an amount of research has emerged focusing on a wider range of countries both developed and developing. Solomon and Solomon (2004) present a list of corporate governance research in twenty four countries other than the US and UK. Though this list does not include Egypt, recently corporate governance research began to take place in Egypt such as Bremer and Elias (2007) and Gamal El-din (2006). However it can be argued that Egypt is still in its infancy stage of corporate governance reform as compared to other countries, with Egypt only committing itself to corporate governance reform since 2003 (Gamal El-din, 2006).

Another gap in corporate governance research is that very little attention has been paid to the corporate governance of banks (Shleifer and Vishny, 1997). This tends to be

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25 Countries list includes: Argentina, Australia, Bahrain, Belgium, Canada, Chile, China, The Chez republic, France, Germany, Hong Kong, Indonesia, Italy, Japan, Jordan, Malaysia, The Netherlands, Nigeria, Poland, Russia, South Africa, South Korea, Taiwan and Thailand.
strange taking into consideration the significant attention that has been dedicated to the role of banks in the corporate governance of other firms (Macey and O'Hara, 2003). Here, Ferri (2003) notes that it is widely accepted that banks are capable of screening applicants and borrowers as well as monitoring them, which enable banks to set a threshold of corporate governance standards that applicants must comply with. This lack of attention to corporate governance of banks is particularly worrying given that there are special features of banks that will arguably increase their need for good corporate governance as compared to other types of firms.

Firstly, these special features include an opaque nature of banks that greatly increases the agency problem as well as information asymmetries between insiders and outsiders (Caprio and Levine, 2002; Levine 2003; Macay and O'Hara, 2003; Mullineux 2006; Barth et al, 2007; Kiraly et al, 2007). Although information asymmetries can be found in any sector of the economy, evidence shows that it is greater within the banking sector (Furfine, 2001). Opacity in banking emerges from the ability of banks to hide loan structure and quality for long periods in addition to their ability to change the risk composition as well, thus making it problematic to obtain information about bank's ongoing operations. One example that shows bank management's ability to hide loans' structural problem is their practice of extending additional loans to clients whose creditworthiness is low due to having debt troubles; while this decreases the assets quality in the long term it improves the activity level of the bank in the short term. Another example is the difficulty to interpret an increase of banks' liquidity measures because this increase can result from either an improper investing strategy or a prudent response by management to a risky environment (Caprio and Levine, 2002; Levine, 2003). This opaque nature increase the agency problem in banks as information asymmetries between insider and outsiders would lead to an increased difficulty for monitoring (agents) managers by owners (shareholders and debt holders) and give the
former a greater opportunity to exploit incentive contracts. Moreover, it would make it easier for managers and large shareholders to enjoy "private benefits of controls" at the expense of maximizing shareholders value (Zingales, 1994:4 cited in Caprio and Levine, 2002).

Moreover, Caprio and Levine (2002) and Levine (2003) argue that information asymmetry is likely to disable takeover threat as an important governance mechanism; this happens due to the poor information available to external bidders. In fact, even bank supervisors who are entitled to have access to bank information cannot themselves guarantee its accuracy. Finally, banks' opacity leads to lack of information to borrowers, a problem to which bankers respond by establishing long-term relationships with clients, in essence putting a barrier in front of competition to take place (Levine, 2003). Indeed, this shows the need for attention to the peculiarity of BCG.

Secondly, as banks are subject to heavy regulation by governments' fearing banks' failure and the possibility of being contagious to other healthy banks (Shull, 2007). However, still there are "both international and domestic scandals and problems with bank governance" (Gup, 2007: xi).

Regulation interferes to impede natural corporate governance mechanisms. For instance Caprio and Levine (2002) and Arun and Turner (2004) indicate that deposit insurance is one form of regulation that encourages a minimal level of monitoring by insured depositors who do not have the incentive to monitor banks as long as their deposits are backed by insurance. Thereby minimising their role in corporate governance of banks and giving bank executives the opportunity to increase their risk taking, thus increasing the governance problem. Yet another regulator mechanism is the restriction on the type and number of banks acquirers, as well as making it more expensive and time consuming to undertake a hostile takeover. Consequently, a takeover is less likely in a banking industry leaving bank executives less disciplined by takeover threat than
executives of non-financial organizations (Prowse, 1995). Restrictions on bank ownership is another type of regulatory intervention in the banking industry, where regulators set particular ownership concentration ratios, which impedes one of the principal governance mechanisms worldwide (Caprio and Levine, 2002; Levine, 2003). Furthermore, extensive regulation can potentially lead to a conflict of interests between individual banks and the supervisor itself; eventually the regulator may have influence on banks’ management to attain results that does not match serving shareholders interests and their value maximization (ibid).

Thirdly, government ownership of banks is another feature that increases the need for better corporate governance, as “state ownership of banks can cause outstanding corporate governance problems” (Kiraly et al, 2007:276). In particular, that government ownership usually raises the conflict of interests, as here the government is playing two roles as an owner and a regulator. In such situation it is unlikely that effective corporate governance would exist (Caprio and Levine, 2002).

2.10 Bank Corporate Governance Significance in Developing Countries

Arun and Turner (2004), Das and Ghosh (2004), Levine (2003) pointed out that although an effective system of BCG is extremely important in any country, its importance is higher in developing countries.

Several reasons can justify this importance namely: the dominant position of banks in a developing financial system, the role of banks in the economic growth of developing countries and the dominant role of banks in financing business firms given the usually underdeveloped financial markets of developing countries (Capri and Leveine,2002; Barth et al,2007). Moreover, the recent liberalization of banking sectors in developing countries through privatization and divestment along with the reduction of economic regulation has given bank executives more freedom in determining management
practices and in setting priorities for interests’ serving leading to crisis (Nam, 2007). Furthermore, analysis of a number of banking collapses in developing economies shows a high correlation between collapses and weak corporate governance in these banking systems. This increases the importance of good corporate governance practices in banks of developing countries (Gandy et al, 2006:4). More precisely, banking failures in developing countries share in common weak corporate governance, an issue that requires attention and further understanding.

While the special features of banks mentioned in the previous section holds in any banking organisation, the corporate governance problem associated with these features are claimed to be of higher severity in developing countries, for instance the presence of conglomerates and the higher domination of few families in many sectors of the economy are said to increase the potential power abuse of insiders at the expense of outsiders. In such environment the problem of transparency and lack of accurate information about banks is likely to be more severe compared to developed economies (Caprio and Levine, 2002). Another potential source of corporate governance problems is the lack of deposit insurance schemes; although its presence brings associated governance problems its absence induces more risk taking given the usual government guaranteeing of deposits (Caprio and Levine, 2002; Levine, 2003). More intensive regulation is also more prevalent in less developed countries to the extent that encumbers market forces by interference in banking operations in the form of directing credit granting, setting portfolio restrictions, and determining liquidity levels (Nam, 2007).

Mullineux (2006), adds that directed credit is widespread in developing countries coupled with higher government ownership of banks leading to higher chances of conflict of interests, especially if the governments’ objectives are not maximising public economic welfare “Corporate governance is thus embedded in and conditioned by the
wider governance system and can only be expected to be effective if the wider governance structure is supportive" (ibid: 376). He adds that good corporate governance requires the support of an independent supervisory authority, which is difficult to find unless there is a strong wider governance system which is "politically" independent (ibid).

Many developing countries have started corporate governance reform in their banking sectors such as Pakistan, India and Indonesia. This includes, firstly, increase the effectiveness and independence of the regulator (Central bank). Secondly, restructure the legal and regulatory framework governing the operations of banks to be in accordance with the recommendations of international organisations such as Basel committee, and the International Monetary Fund (IMF). Finally, issue guidelines for good corporate governance practices in banks based on the recommendations of the abovementioned organisations but adjusted to the domestic economic and regulatory situation of each country (Khalid and Hanif, 2005).

2.11 Corporate Governance Model in Banks

Special features of banks including their opaque nature, being subject to heavy regulations and the spread of government ownership of banks are factors that not only make banks special compared to other types of firms but also make them subject to special corporate governance problems, as these features impede natural corporate governance mechanisms that can improve corporate governance quality of other non-

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25 The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. The Committee’s members come from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. Countries are represented by their central bank and also by the authority with formal responsibility for the prudential supervision of banking business where this is not the central bank" (Bank for International Settlements, 2008) [http://www.bis.org/bcbs/index.htm].
bank organisations, such as market for corporate control and takeover threat (Caprio and Levine, 2002; Macay and O'Hara, 2003).

Unfortunately this makes it easier for insiders (managers and large investors) to “exploit private benefits of control rather maximising value for shareholders” (Zingales, 1994:4 cited in Caprio and Levine, 2002). As such self interest and associated short-termism and excessive risk taking will result only in more conflict of interests with shareholders, as well as interests of the fixed claimants (depositors) who are risk averse. This led many researchers to claim that managers of banks have a fiduciary duty to both depositors and shareholders (Macay and O'Hara, 2003; Mullineux, 2007; Barth et al, 2007). In fact the financial crisis and the collapse of more than 105 banks in the USA during 2009 gives a good example of the damage and loss bank’s stakeholders (shareholders and depositors) can suffer as a result of corporate governance failures related to inappropriate risk assessment, reckless boards and improper remuneration systems that encouraged short-termism rather than long-term value creation (Kirkpartick, 2009; De Larosiere et al, 2009). Accordingly, adopting the Anglo-Saxon model based on the agency theory to serve the interests of shareholders only is deemed inappropriate in the case of banking organisations because interests that corporate governance should look after in a bank include interests beyond those of the shareholders namely: depositors (Mullineux, 2007). Macay and O'Hara (2003) recommended that banks should adopt a stakeholder model for solving the corporate governance problems of banks. However; adopting a pure stakeholder model of corporate governance in banking organisation would face the difficulty of stakeholders’ identification in addition to other shortcomings of the model (Nwanji and Howell, 2007b). Therefore, the pure stakeholder model is also deemed inappropriate because it does not provide a concrete identification of stakeholders.

27 As such have chosen to deposit their funds in banks, as conceived as a safe place for their savings
28 Previously mentioned in section 2.7
In this respect Basel Committee\(^{29}\) on Banking Supervision defines corporate governance of banks as the system that involves the setting of corporate objectives that include the generation of economic returns to owners, ensuring the accountability obligation of management and directors towards their shareholders is met, and taking into account "the interests of other recognized stakeholders most importantly supervisors, governments and depositors due to the unique role of banks in national and local economies and financial systems" (BCBS, 2005:4).

Therefore, it can be argued that banks being particular and having special needs from a corporate governance framework should adopt a corporate governance model that serves the interests of shareholders and depositors in the first place, and probably other fixed claimants stakeholders such as creditors in addition to complying with the regulator guidelines.

Indeed, this argument is consistent with the earlier argument made in part one of this chapter, where many researchers such as (Ratnatunga and Ariff, 2005; Lubatkin et al, 2005; Rwegasira, 2000) argue that each institutional environment (Banking organizations) has many factors that shapes its corporate governance practice. Moreover, it must be noted that although the international banking community calls for a pluralistic model of corporate governance to ensure consistency with internationally agreed standards for the corporate governance of banks this does not mean that the factors shaping the corporate governance have to be similar from one country to the other or within various banking sectors, as such this can only be known by empirical corporate governance research that examines the institutional environments in which these banking organisations operate (Durisin and Puzone, 2009; Letza et al, 2008; Smallman, 2007; Ratnatunga and Ariff, 2005; Lee and Yoo, 2008).

\(^{29}\) Basel committee definition is considered as an authority (See footnote 26 P.58)
Finally, it must be noted that the financial crisis has demonstrated that current corporate governance models based on the dualistic thinking of corporate governance are inappropriate and indeed new perspectives are essential to find new venues of improvement.
Part Three: Corporate Governance in the Egyptian Banking Literature

This part aims to present the general profile of the banking sector in Egypt. This includes briefly reviewing the developments of the banking sector, identifying the current structure of the sector and presenting an overall evaluation of the EBS. Then gives an overview of corporate governance within the EBS, and finally reviews the literature related to assessment of corporate governance practice in the EBS.

2.12 EBS Profile

The EBS started its operation in 1856 by establishing the first bank known as "Bank of Egypt" by the Armenian community. Later on the Egyptian government has been induced to establish the first governmental bank "The National Bank of Egypt" in 1898, the National Bank of Egypt had the exclusive authority to issue notes and coins during this time, as such it played the central bank role as well. Moreover, Banque Misr was established in 1920 as the first Egyptian private bank, founded to compete with the National Bank of Egypt (AmCham BSAC, 2005).

Today’s EBS is the product of several transformations that took place during the previous decades. These transformations included moving from a banking sector dominated by foreign banks, to a system that is purely Egyptian and dominated by state-owned banks, especially after the wave of nationalization that took place during the 1950s and 1960s. In essence, these movements had led to a banking sector with obvious government involvement and channelling of most of its resources towards financing governmental projects and state-owned enterprises regardless of the commercial viability of these projects (Mohieldin and Nasr, 2007). Unsurprisingly, this had led to the problem of the NPL to explode due to these various forms of directed and connected lending (ibid).

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30 This point is discussed in more details in the section 2.13
Another major transformation of the EBS took place during the 1974, when the open door policy was initiated, giving the chance once again to the private sector to re-appear in the EBS but as partners with the Egyptian government, this had materialised in establishing many joint-venture banks between the Egyptian government and private sector parties (AmCham BSAC, 2005). The first joint-venture bank established in 1975 was the Commercial International Bank (CIB), established as a partnership between NBE and the American Bank Chase Manhattan (ibid). This trend led to enlargement of the EBS but was a step towards the liberalisation of the banking system in Egypt. However, during this period the banking sector has faced hard times due to many macroeconomic aspects including imbalances between exports and imports, inflation, direct lending and state-ownership dominance over the EBS; this has led to the first established joint-venture bank (CIB) to come under a pure Egyptian ownership again in 1987 after Chase Manhattan decided to withdraw from Egypt (ibid).

More recently, after such troubles Egypt has initiated the Economic Reform and Structural Adjustment Program (ERSAP) in 1991 to transform the Egyptian economy from a centrally planned economy to a liberalised one; surely, the liberalisation of the financial system was part of the ERSAP. This included,

> Developing the monetary and financial instruments to manage liquidity, liberalize interest rates and credit, and establish the legal framework for privatization of financial institutions. For the first time, the government announced its commitment to privatization of banking system, namely the sale of all state-owned shares in joint venture banks, and one of the state owned banks. However, very few joint venture banks were fully divested, and none of the state-owned banks were privatized... raised questions regarding its seriousness and commitment to market-oriented banking system (Mohieldin and Nasr, 2007:712).

According to Mohieldin and Nasr (2007) although there were some improvements during the 1990s such as including the cleanup of loan portfolios of banks, minimising of preferential lending to the state-owned enterprises, many of challenges continue to exist including “low levels of competition...dominance of the state-owned banks... poor assets quality, weak governance and low profitability” (ibid:712). Later on in late 2004,
the EBS faced another cycle of change when the government has announced the reform of the financial sector (ibid). This reform aims for the consolidation of the banking sector through mergers and acquisitions, full divestiture of the state stake in joint venture banks and the privatisation of the bank of Alexandria the fourth biggest state-owned bank, with a principal objective to strengthen the supervisory and regulatory “apparatus” of the banking system (Mohieldin, 2000; CBE, 2008a).

According to the latest developments in the banking sector reform program, the CBE has finalised the first phase of reform that covers the period 2004-2009, this phase aimed to improve the efficiency and soundness of the EBS, improve its ability to manage risks and increase its ability to foster the economic development in Egypt. Currently, phase two of the reform has been initiated to restructure the state-owned specialised banks, following-up of phase one restructuring of other commercial state-owned banks; comply with BASEL II accord; focus on small and medium enterprises financing; revise corporate governance quality within all banks, and assure compliance with the international benchmark of corporate governance for banking organisations (CBE, 2009).

2.12.1 Ownership Structure of the EBS

The banking sector in Egypt has passed through continuous changes in terms of ownership structure and the number of banks (AmCham BSAC, 2005). According to the CBE the banking sector is composed of a total number of 40 banks, this includes 3 public commercial banks, 3 public specialised banks, 27 private and joint-venture commercial banks and 7 branches of foreign banks as shown in table 2.1 and appendix 2 (CBE registered banks, 2008b).

It should be noted that the branches of Foreign Banks are treated differently by law, in terms of the minimum capital requirements. Although the new banking law (88/2003)
has brought about these new capital adequacy requirements to improve the soundness of the banking sector, with the assumption that capital acts as a cushion against financial shocks that help banks to continue meeting their liabilities, however, the state-owned banks still suffer from inappropriate capital adequacy ratios (Mohieldin and Nasr, 2007).

Table 2.1 Structure of the Egyptian Banking Sector

<table>
<thead>
<tr>
<th>Bank Category</th>
<th>Owner</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>State</td>
<td>3</td>
</tr>
<tr>
<td>Specialised</td>
<td>State</td>
<td>3</td>
</tr>
<tr>
<td>Commercial</td>
<td>Private and Joint venture</td>
<td>27</td>
</tr>
<tr>
<td>Commercial</td>
<td>Branches-Foreign banks</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>40</td>
</tr>
</tbody>
</table>

Source: (CBE, 2008)

While, in terms of the total assets the structure of the EBS is still dominated by the state-owned banks as shown in table 2.2.

Table 2.2 Percentage of Total Assets Owned By Various Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>Owner identity</th>
<th>Percentage of the total assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Bank of Egypt</td>
<td>State-owned</td>
<td>23.45%</td>
</tr>
<tr>
<td>Banque Misr</td>
<td>State-owned</td>
<td>15.17%</td>
</tr>
<tr>
<td>Banque du Caire</td>
<td>State-owned</td>
<td>5.50%</td>
</tr>
<tr>
<td>Commercial international Bank</td>
<td>Private</td>
<td>5.41%</td>
</tr>
<tr>
<td>National Societe generale</td>
<td>Private</td>
<td>5.38%</td>
</tr>
<tr>
<td>Arab African international</td>
<td>Private</td>
<td>5.02%</td>
</tr>
<tr>
<td>Bank of Alexandria</td>
<td>Private</td>
<td>4.28%</td>
</tr>
<tr>
<td>HSBC Bank</td>
<td>Private</td>
<td>3.12%</td>
</tr>
<tr>
<td>Faisal Islamic Bank</td>
<td>Private</td>
<td>2.51%</td>
</tr>
<tr>
<td>Credit Agricole bank</td>
<td>Private</td>
<td>2.45%</td>
</tr>
<tr>
<td>Egyptian Arab Land Bank</td>
<td>Private</td>
<td>2.33%</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>Private</td>
<td>2.24%</td>
</tr>
<tr>
<td>Barclays Bank</td>
<td>Private</td>
<td>2.03%</td>
</tr>
<tr>
<td>Principal Bank of development</td>
<td>Private</td>
<td>1.68%</td>
</tr>
<tr>
<td>Suez canal bank</td>
<td>Private</td>
<td>1.60%</td>
</tr>
<tr>
<td>The United Bank2</td>
<td>Private</td>
<td>1.52%</td>
</tr>
<tr>
<td>Al-Watany bank of Egypt</td>
<td>Private</td>
<td>1.41%</td>
</tr>
<tr>
<td>Housing and Development bank</td>
<td>Private</td>
<td>1.21%</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>10.99%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Researcher based on the comparative data of Bankscope databases (2009)

This can be depicted as shown in figure 2.1

This means that on average of an exchange rate of (1USD/5.5 EGP) branches of foreign banks are subject to 50% of the capital requirements of banks incorporated in Egypt. This study focus is on commercial banks incorporated in Egypt. These 30 banks represent the majority of the EBS structure as shown in table 2.1.

32 Although this bank is classified by the central bank under the private and joint venture banks, 99.99% of the bank's capital is owned by the CBE, after the CBE has merged three failed banks namely the Nile bank, united bank of Egypt and Islamic international bank for investment and development (Bankscope databases, 2009). So this bank is under the indirect control of the state.
Figure 2.1 Allocation of the Market Share of Various Banks of the EBS Based On the Total Assets Percentage

Table 2.2 and figure 2.1 illustrates that the state-owned banks represent nearly 45% of the EBS in terms of their total assets. This indicates that the majority of the EBS is still under the control of the state. However, from a profitability perspective, state-owned banks accounts for only less than 7% of the total income of the whole banking sector in 2009 (Bankscope databases, 2009). This may raise questions regarding the efficiency of operations of the EBS.

2.12.2 An Overall Evaluation of the EBS

According to Business Monitor International Report on the Egyptian Commercial Banking (2008), both the strengths and weaknesses evident in the internal environment of the banking sector; as well as the opportunities and threats facing the banking sector from the external environment (Strengths, weaknesses, opportunities and threats, SWOT analysis) were identified. This can be summarized as shown in table 2.3, which represents the summary SWOT analysis of the commercial banking in Egypt.
Table 2.3 SWOT analysis of the Egyptian commercial banking

<table>
<thead>
<tr>
<th>Egypt Commercial Banking SWOT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
</tr>
<tr>
<td>• Macroeconomic outlook remains positive</td>
</tr>
<tr>
<td>• GDP growth to rise in the short term</td>
</tr>
<tr>
<td>• Ongoing liberalisation of banking sector</td>
</tr>
<tr>
<td>• Strong investment growth over the next 5 years</td>
</tr>
<tr>
<td>• Relatively strong banking sector in relation to other countries we monitor in the region</td>
</tr>
<tr>
<td>• Likely growth in total assets expected to be large</td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
</tr>
<tr>
<td>• Past problems have left the industry quite undeveloped</td>
</tr>
<tr>
<td>• Historically not exposed to foreign competition</td>
</tr>
<tr>
<td>• Relatively high levels of corruption and bureaucracy</td>
</tr>
<tr>
<td>• Only moderate growth in client loans is expected</td>
</tr>
<tr>
<td><strong>Opportunities</strong></td>
</tr>
<tr>
<td>• Growth may be more spectacular than forecast, given the low base</td>
</tr>
<tr>
<td>• Government reform is opening up the sector</td>
</tr>
<tr>
<td><strong>Threats</strong></td>
</tr>
<tr>
<td>• Political instability</td>
</tr>
<tr>
<td>• Risk that inflation might spike higher</td>
</tr>
</tbody>
</table>

Source: Egyptian Commercial Banking Report, Q1, 2008, Business Monitor International

It can be observed from table 2.3 that the main weaknesses of the EBS include the NPL problem, the relative domination of the state and the isolation from foreign competition until recently when the banking law permitted foreign majority ownership of banks operating in Egypt; most importantly, relatively high levels of corruption and bureaucracy evident in the EBS. However, the ongoing government reform of the banking sector is likely to offer future opportunities. Finally, the EBS main strengths include the liberalisation started during the last decade, the increase in the sector’s total assets and the positive macroeconomic outlook.

2.13 Banks Corporate Governance in Egypt: An Overview

The global financial crisis has increased the emphasis on corporate governance of banking organisations both in developed and developing countries (Kirkpartick, 2009; De Larosière et al, 2009). However, bank governance was crucial in a bank-based country such as Egypt before the global financial crisis for a number of reasons: Firstly, 85-90% of business financing is provided by the banking system (El-said, 2009) which means that banks are the principal players in the Egyptian economy. This puts a huge burden on the banking sector to be properly governed to avoid failures. Secondly, the
current government initiatives that aim to improve the investment climate with strong
corporate governance structures as its backbone, here the role of banks has been
materialized in the first Egyptian corporate governance code (2005) which assigned
banks a major role in ensuring adherence of business organisations to the code
provisions by considering its standards a precondition for credit extension (Egyptian
Code of Corporate Governance, 2005). Performing such a role means that banks have to
be a model of high quality corporate governance themselves, in order to insist on high
standards from others.

Thirdly, corporate governance of the Egyptian banks has been central to the reform
programme of the EBS itself. Those reforms were initiated to address many areas of
improvement amongst is to enhance banks’ governance especially since weak
governance was a main reason for the late 1990s’ bank failures and the associated
problem of NPL (CBE, 2008). Corporate governance is central to this problem because
of the assumption that behind the NPL was weak governance standards leading to
improper credit and investment decisions (Oldham and Bennadi, 2005), whereby “loans
were given based on intentionally overvalued assets to fit the collateral base of each
bank and disregarding the future cash flows of the borrowers” (Kalhoefer and Salem,
2008:5). Here, corporate governance failures were evident in many cases especially in
the state-owned banks which dominated the EBS during this period.33 Obviously, credit
was allocated to “privileged and connected private sector not on commercial basis”
(Mohieldin and Nasr, 2007:711). Many cases of insider lending were reported as board
members facilitated loans granting to their friends and network of clients, thus
breaching their supposed supervisory and monitoring role on executive management
(ibid). Moreover, improper borrowers’ screening and insufficient credit study of the
financed projects was evident (ibid). Another instance of corporate governance failure

33 The state-owned banks holds 45% of the banking sector total assets, so they are still in a dominant
position
was the government influence especially on state-owned banks, to finance national mega-projects on the basis of directed lending without taking into account the risk profile of these projects. While in the case of private banks corporate governance weaknesses were more related to improper risk management, as these banks continued granting loans to unprofitable private corporations, simply to prevent them from bankruptcy without giving consideration to the detrimental effect on both shareholders and depositors funds (ibid). Kalhoefer and Salem (2008) have summarized this situation as “corruption in the lending activities”. Mohieldin (2000) has added that banks have violated prudent credit standards and ineffectively managed risk. However, the corporate governance failures cited above can be blamed also on the weak supervision of the CBE during this period leading to a heavy NPL problem that reached more than 30 billion Egyptian pounds in 2004 owed only by the state-owned banks (Kalhoefer and Salem, 2008).

Again, the dominance of the state-owned banks, their distorted incentive systems, poor management, weak internal governance, lack of performance incentives, overstaffing and inadequate risk management are all facets of failure in corporate governance (Mohieldin and Nasr, 2007). Furthermore, El-Shazly (2001:16) has indicated that during this period transparency and disclosure levels were also inadequate, banks’ publication of their financial statements was only made at the end of the year and even when published it was of limited use, especially in the case of state-owned banks. For instance their published income statements “were exceedingly brief with a couple of lines on revenues and expenditures which do not show the amount of provisions”. He added that although the CBE has taken measures to tackle this problem in the form of mandating the publishing of monthly results, “market transparency is so far insufficient. For instance, there is no published data on such important information as non-performing loans, average rates of return, and risk-weighted capitalization” (P.16). This was also
substantiated by the global assessment of bank disclosure practices report which classified the EBS as one of the most opaque banking systems around the world (Huang, 2006:12).

To summarize, in Egypt in the late 1990’s bank failures can to a great extent be blamed on failure of corporate governance that included: corruption in lending, inadequate risk management, weak internal controls, improper transparency and disclosure measures and imprudent boards. Though the deterioration of the macro-economy has aggravated the problem of NPL by increasing the number of bankruptcies (Mohieldin and Nasr, 2007), still ineffective checks and balances has created the problem.

Notably, the NPL problem had negative impact on the interests of shareholders, depositors and creditors as they jointly suffered from loan defaults. This assumption was also reflected in the passing of the new banking Law 88 of 2003 that addressed a range of modernization issues, including the need to enhance and monitor corporate governance in banks as well as other issues such as setting the objectives and functions of the CBE, Management of the CBE, the financial system of the CBE and Management of public sector banks (EBI, 2006; Law No.88, 2003).

Despite this overriding importance the issue of bank governance in Egypt has been neglected by the literature, whereas only few researchers (especially those mentioned above) have discussed the reform process of the EBS and noted its poor governance structures and management. Apart from this no other research to date addressed the issue of bank governance in a profound manner.

As such the next section 2.13 will shed lights on the current status of bank governance as reflected by the latest available survey undertaken by the Egyptian banking institute (EBI, 2006).
2.14 Assessment of Corporate Governance of the EBS

This section highlights the current status of the corporate governance quality in the EBS. It presents the main results of the Egyptian banking Institute (EBI) survey 2006, that evaluated corporate governance in the EBS and how far it complies with the widely accepted framework of good corporate governance principles in banking industry as set by Basel Committee recommendations to enhance corporate governance in banking (2005) and principles of corporate governance issued by the OECD (2004) and the International Finance Corporation (IFC) (EBI, 2006). Indeed, this highlights the corporate governance areas that need further improvement.

This questionnaire based survey examined various aspects of corporate governance in the EBS namely: General framework of good corporate governance, rights of shareholders, equitable treatment of all shareholders, the role of stakeholders in corporate governance, transparency, board of directors' role in corporate governance and external monitoring of banks.

The general framework for good corporate governance section revealed that although there is a good level of understanding of the key principles of good corporate governance, there is a need to officially document and publish the level of compliance with the governance structures at the level of banks. This requires the availability of a set of principles or guidelines of good corporate governance in EBS, against which banks can report periodically their levels of compliance.

Shareholders of the Egyptian banks enjoy to a considerable extent their rights with no differential rights offered to a certain shareholders class. Fewer banks allow shareholders to obtain redress for violations of their rights. Similarly, few banks keep a record of related party transactions which require shareholders’ approval.
The survey also revealed that the current banking regulations protect different stakeholder groups, with the highest protection devoted to clients, employees and creditors, while communities and competitors rights are observed but to a lesser extent.

The surveyed banks show a high level of disclosure of material information and financial transparency, supported by independent external auditors’ work and strong internal audit function; however, more effort is required to enhance disclosure practices pertaining to remuneration of senior key executives.

Another important result of the survey is that few banks have formal training programmes that aim to enhance their employees’ knowledge about corporate governance, compliance and internal control processes.

A significant number of the surveyed banks indicated that their credit risk assessment systems do not include the evaluation of the client’s corporate governance practices. This issue is not only important to the soundness of the credit extension process but also to improve corporate governance practices in the client’s companies.

The majority of the surveyed banks indicated that their boards include independent members; fewer banks however, indicated that they have a determined number of seats for independent directors. None of the surveyed banks have a board comprised of a majority of independent directors. This is another area that needs further enhancement in accordance with Basel committee directives on corporate governance and the OECD corporate governance principles. However, still the majority of banks separate the chairmanship and the chief executive position.

Moreover, the majority of surveyed banks have an audit committee. This is not surprising as it is a legal requirement for banks to have an audit committee. Likewise, the majority have a credit committee; while, only half of the respondents have nomination and remuneration committees, with a minority having corporate governance committee. Finally, board self evaluation is another area that needs further
enhancement, especially that most of the surveyed boards do not conduct reviews of their effectiveness.

It must be noted here that although this survey provides useful information about BCG in Egypt, this information is no more than an overall pictorial presentation of the status quo that do not offer a deep understanding of the phenomenon of BCG, it does not provide the reasons leading to the survey results. Moreover, the survey does not show the role of the CBE in BCG phenomenon or the mechanisms deriving the phenomenon. It also does not identify the corporate governance model prevailing within the EBS and how it is developed. However, the survey provides a good start to investigate the phenomenon in details to understand its nature, identify the factors shaping it and clearly determine the future policy recommendations required to enhance BCG in Egypt.

2.15 Conclusion

The aim of this chapter was to review the literature relevant to the thesis. As such it was divided into three main parts: part one reviews corporate governance literature, part two reviews corporate governance in banking organizations; while part three reviews corporate governance within the Egyptian banking sector.

In part one, the thesis has attempted to highlight that corporate governance body of knowledge is somewhat controversial. Indeed this was demonstrated through various definitions of corporate governance, for instance the narrow finance perspective (Parkinson, 1994), a wider stakeholder perspective (Tricker, 1984) and a balanced perspective (OECD, 2004).

This part has also demonstrated that corporate governance subject has gained more momentum following several corporate scandals that occurred as a consequence of weak corporate governance, showing that although efforts were directed to improve corporate governance systems, the global financial crisis (2007) indicated the need to
continue corporate governance reforms in general and of financial institutions in particular (Kirkpatrick, 2009; De Larosiere et al, 2009). Part one has addressed another debatable area in the literature on the relationship between corporate governance and performance and concluded that the literature has been inconclusive in this area. Indicating that corporate governance reforms are initiated because of the fear of corporate failures rather than hope of corporate success.

Part one has also discussed corporate governance theorizing based traditionally on either the agency theory or the stakeholder theory (Freeman and Reed, 1983; Maher and Andersson, 2000; O'Sullivan, 2000; Kakabadse and Kakabadse, 2001; Gamble and Kelly, 2001; Friedman and Miles, 2002; Omran et al, 2002; Letza and Sun, 2002; Letza et al, 2004, Chilosi and Damiani, 2007; Carillo, 2007; Nwanji and Howell, 2007a, Nwanji and Howell, 2007b; Letza et al, 2008; Keay, 2010). Reviewing the principal arguments for and against each corporate governance perspective as each perspective supposing primary to the other (Keay, 2010). Nonetheless, both perspectives are criticized on many grounds indicating that understanding corporate governance phenomenon requires far beyond what is offered by traditional theorizing. Finally, part one discuss NIST as an alternative theoretical framework demonstrating that this alternative corporate governance theorizing can offer a more fruitful venue for corporate governance theory development as well as for guiding practice and policy making.

Part two of this chapter emphasises the importance and peculiarity of corporate governance within the context of banks generally and in developing countries banks' particularly. Nevertheless part two identified a gap in the literature discussing corporate governance of banks compared with research directed to other types of organizations. In the Egyptian banking context, the issue of corporate governance has been completely neglected. This part has also demonstrated that the traditional corporate governance models (Shareholding V. Stakeholding) cannot be readily adopted in banking
organizations. Showing that Basel committee’s model of corporate governance (BCBS, 2005; 2010) is based on a more hybrid model that aims to serve shareholders and selected stakeholders namely depositors and regulators. This supports the need for an alternative corporate governance theoretical framework that takes into account the context of corporate governance phenomenon.

The third part of this chapter, reviewed the corporate governance issue in relation to the EBS, showing that the issue has never been studied profoundly. This part presents a brief profile of the EBS and gives a short summary on the most important developments that occurred in the EBS and the main troubles it faced, showing how corporate governance weaknesses account for the recent 1990s bank failures. Nevertheless, the CBE carried out a survey on corporate governance quality of the EBS. Indeed, the core results of this survey are reviewed, as they can be helpful to investigate the phenomenon deeply and identify its nature and the factors shaping it.

The next chapter explains the research design of this thesis. Indeed this is done on the basis of the knowledge gap and research problem identified in this chapter.

It will discuss the paradigmatic underpinnings of this thesis and chooses the grounded theory methodology to deal with research problem and enable achieving the research objectives.
CHAPTER THREE

Research Methodology

3.1 Introduction

This chapter identifies the research problem and the nature of the corporate governance phenomenon in the light of the Literature review. Accordingly, it explains how a qualitative research design fits investigation of this problem, and how it matches the nature of the corporate governance phenomenon. Then it reviews various paradigms of inquiry within qualitative research and chooses the paradigm of inquiry that underpins this research. Finally, it discusses the rationale for choosing grounded theory methodology for this thesis, its various versions and its fundamental principles.

3.2 Qualitative Research Design

Deciding on the research design is a fundamental aspect of undertaking research. Research design refers to the "plans and procedures for research that span the decisions from broad assumptions to detailed methods of data collection and analysis" (Creswell, 2009:3). Moreover, research design indicates how the research is conceptualized as well as the type of contribution it will achieve (Cheek, 2008).

Qualitative research has evolved during the last century, through complex processes of successive stages of "epistemological theorizing" (Denzin, 2008:311). As such the term qualitative research has been confusing because it "means different things to different people" (Strauss and Corbin, 1990b: 18; Lockyer, 2008). However, qualitative research can be defined broadly as:

*a situated activity that locates the observer in the world. Qualitative research consists of a set of interpretive material practices that make the world visible. These practices transform the world. They turn the world into a series of representations, including field notes, interviews, conversations, photographs, recordings, and memos to the self... involves an interpretive naturalistic approach to the world. This means that qualitative researchers study things in their natural
settings, attempting to make sense of, or interpret, phenomena in terms of the meaning people bring to them (Denzin, 2008:311-312).

The general characteristics of qualitative research can be summarized as follows:

- take place in the natural setting...uses multiple research methods that are interactive and humanistic...emergent rather than tightly predefined...fundamentally interpretive...researcher views social phenomenon holistically...researcher reflects on who he or she is in the inquiry and is sensitive to his or her personal biography...uses complex reasoning that is multi-faceted, iterative, and simultaneous (Creswell, 2003:181-182).

The decision to undertake qualitative research is basically related to three issues (1) the nature of the research problem, (2) the degree of uncertainty surrounding the phenomenon (3) the researcher's theoretical assumptions (Trauth, 2001). Here the nature of the research problem determines the choice of qualitative research to pursue a particular research project because "what one wants to learn determines how one should go about learning it" (ibid: 4). For instance cases such as the "attempts to uncover the nature of phenomenon" (Strauss and Corbin, 1990b:19) are naturally studied through qualitative research. In terms of the degree of uncertainty surrounding the phenomenon qualitative research is well-suited to "uncover and understand what lies behind any phenomenon about which little is yet known" (Straus and Corbin, 1990b:19). As qualitative research seeks interpretation of phenomena and tries to develop a holistic complex account of the issue studied (Creswell, 2007). As such it is well-suited to reduce uncertainties surrounding the phenomenon studied. Finally, the researcher's theoretical assumptions are another important aspect to utilize qualitative research (Trauth, 2001). Indeed qualitative research can use different theoretical lenses, paradigms or philosophies (Schwandt, 2001). It is important here that the qualitative researcher identifies the chosen paradigm of inquiry in terms of its ontological and epistemological stances. The former is related to "philosophical assumptions about the nature of reality (ontology)" (Creswell et al, 2007:238). While the latter is related to assumptions about "the relationship between the inquirer and the known (epistemology)" (Denzin and Lincoln, 2000:19, author brackets).
Indeed selection of a qualitative research design based on the abovementioned criteria affect other decisions related to the research design such as the research methodology and research methods (Trauth, 2001). The former refers to the "overall approach to the research process" (Collis and Hussey, 2003) it also reflects the ontology and epistemology of the chosen paradigm of inquiry (Schensul, 2008). While, the latter "refers to the ways in which qualitative researchers collect data" (ibid).

3.3 Research Problem and the Nature of the Phenomenon Investigated in this Thesis

This section aims to clarify the research problem and identify the nature of the corporate governance phenomenon in banking organizations following the study of the related literature. Indeed, this will be the basis for conducting qualitative research including the selection of the guiding paradigm of inquiry and the associated research methodology and methods.

The literature review has identified a number of gaps in knowledge that this thesis will try to handle. At the general level, attention given to studying corporate governance of banks is negligible compared to corporate governance research of non-financial institutions (Shleifer and Vishny, 1997). This lack of attention to BCG is particularly worrying because banking organizations have special features that increase their need for good corporate governance (Caprio and Levine, 2002; Levine, 2003; Macay and O’hara, 2003; Mullineux, 2006; Barth et al, 2007). Furthermore, the importance of BCG is higher in the context of developing countries (Arun and Turner, 2004; Das and Ghosh, 2004; Levine, 2003) such as Egypt. Certainly, in the Egyptian banking context, corporate governance is of special importance because weak corporate governance has been blamed as a main reason behind the banking scandals in late 1990s and early 2000s leading to the NPL problem and the loss of depositors’ funds (Oldham and Bennadi, 2005; Mohieldin and Nasr, 2007). However, given this overriding importance

34 Chapter 2
of BCG to Egypt, this issue has been neglected by the literature, with no research to date having investigated the corporate governance of the EBS in a profound manner that offers better understanding of the phenomenon and the factors shaping it. Indeed this is important to help in minimizing the recurrence of this type of bank failures in the future. Additionally, better BCG in Egypt is important to promote corporate governance concept amongst other sectors of the economy.

3.3.1 The Nature of Corporate Governance Phenomenon

The above mentioned gap in the body of knowledge is affected as well by the general nature of the corporate governance phenomenon and usefulness of the current corporate governance theorizing. Basically and as previously mentioned in the literature review, the current corporate governance theorizing is incompatible with the nature of corporate governance phenomenon, which is a complex social process, dynamic rather static and varies with the institutional context where it is embedded (Letza and Sun, 2002; Aguilera and Jackson, 2003; letza et al, 2004; Kirkbride et al, 2005; Mason et al, 2007; Ardalan, 2007; Letza et al, 2008) making the traditional shareholder v. stakeholder corporate governance perspectives hardly transferable to non Anglo-American markets (Rwegarsia, 2000). Even, in Anglo-American markets these traditional corporate governance models are under scrutiny following the corporate governance related scandals and the global financial crisis (KirkPatrik, 2009; De Larosie’re et al, 2009).

Obviously, the complex nature of the corporate governance phenomenon and incompatibility of the widely accepted corporate governance models (shareholding and stakeholding) contributes to the research problem of the thesis. Because there is neither previous research addressing corporate governance of Egyptian banks, nor the prevailing corporate governance models can unconditionally be applied to the Egyptian banking context.
As such the main objective of this study is to discover and understand the nature of corporate governance phenomenon within the EBS, understand the factors shaping it and how these factors interact and contribute to the occurrence of the phenomenon within the institutional environment of the EBS. Towards this end, the study aims to build a substantive theory of BCG using an alternative theoretical framework, which is the NIST. So, here the research problem represents “the substantive area of focus for the research” (Strauss and Corbin, 1998:35). This substantive area is investigated through asking questions that enable developing a substantive theory (ibid). This should be carried out in a manner that provides enough flexibility and freedom to investigate the phenomenon in depth. The assumption in the theory generating studies (Qualitative studies) is that:

All of the concepts pertaining to a given phenomenon have not been yet identified, at least in this population or place. Or, if so, then the relationships between the concepts are poorly understood ... Perhaps there is the assumption that nobody ever asked this particular research question in quite the same way, so it is as yet impossible to determine which variables pertain to this area and which do not. This reasoning creates the need for asking the type of question that will enable the researchers to find answers to issues that seem important but remain unanswered (ibid: 40-41).

As such the main research question is:

What is the nature of corporate governance phenomenon within the context of the EBS? More specifically,

1. How the corporate governance phenomenon arises in the context of the EBS?
2. What factors shapes the corporate governance phenomenon within the EBS context?
3. What are the strengths and weakness of banks’ corporate governance practices within the EBS?
4. How the quality of corporate governance practices of the EBS can be enhanced?

Substantive theory is the theory that evolves from studying a particular phenomenon in certain context or situation (Straus and Corbin, 1998)
In conclusion, given the nature of the research problem, the nature of the phenomenon investigated and the objectives of the study a qualitative research design is well-suited to this study.

3.4 Paradigms of Inquiry in Qualitative Research

Paradigms of inquiry deal with the philosophical issues underpinning qualitative research (Denzin and Lincoln, 2000). A paradigm of inquiry can be generally defined as:

A set of assumptions and perceptual orientations shared by members of a research community. Paradigm determine how members of research communities view both the phenomena their particular community studies and the research methods that should be employed to study those phenomena (Donmoyer, 2008:591).

More precisely, a paradigm of inquiry can be identified through three aspects: ontology that defines “the nature of reality?” (Denzin and Lincoln, 2000:19). Epistemology that identifies “the relationship between the inquirer and the known?” (ibid). While, methodology determines “how do we know the world, or gain knowledge of it” (ibid). Creswell (2009:5) argues that although these philosophical ideas are hidden in the research, they influence the research practice.

Although, all qualitative research has an interpretive nature, the paradigm of inquiry chosen by the researcher puts particular boundaries on the research in terms of the questions asked by the researcher and how he/she interprets responses (Denzin and Lincoln, 2000).

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36 Although BCG is of crucial importance to the EBS, it has been neglected by the literature. With no research to date investigated the corporate governance of the EBS in a profound manner to enable the understanding of the phenomenon and the factors shaping it in order to better protect this vital sector against the recurrence of bank failures of the 1990s.

37 Corporate governance phenomenon is highly complex and varies from one context to another. Additionally, the traditional corporate governance theorizing is deemed incompatible to offer deep understanding of corporate governance phenomenon. Making it difficult to unconditionally adopt the widely accepted shareholding or stakeholding corporate governance perspectives. Rather the nature of the corporate governance within the context of EBS need to be well-understood.
Although the positivist paradigm developed to examine phenomena in physical sciences was prevailing in social science research; the last century had witnessed successful shift towards non-positivist paradigms and a social scientists' movement to utilise qualitative rather than quantitative research (Donmoyer, 2008). Egon Guba and Yvonna Lincoln had led the way in qualitative research and introduced a paradigmatic revolution in social sciences resembling Kuhn's revolution in physical science (ibid). The new paradigmatic view of social sciences included a view with different epistemological and ontological grounds than the prevailing views. Here "knowledge is constructed not discovered" (ibid: 592).

It should be noted that, social patterns which are the focus of interpretative research (qualitative research) are different from patterns found in nature. The former does occur as a result of causal relationships, while, the latter are the result of "contingent and criticizable conditions within which actions takes place" (Carspecken, 2008:173).

Guba and Linclon (2000) have identified five main paradigms of inquiry within qualitative research: Positivism, Post-Positivism, Critical theory et al, constructivism and participatory paradigms. These paradigms can be differentiated on the basis of the three fundamental characteristics of research as follows:

A-Ontological perspectives of alternative paradigms

According to Guba and Lincoln (2000), the ontological basis of positivism considers that reality exists; it can be fully understood and only needs to be discovered. This is known as Naïve realism. Post-positivism considers that reality can be only understood imperfectly and probabilistically, this is known as critical realism; while the critical theory et al. considers that reality is shaped by many factors including social, political, cultural, ethnic and gender values, known as historical realism. Constructivism, assumes that reality is locally constructed and is specific to a person or a group, which is known as relative reality. Finally, participatory paradigm considers that reality is a
participative (subjective-objective) reality co-created by the researcher and the community involved in the research.

B- Epistemological perspectives of alternative paradigms

Guba and Lincoln (2000) indicated that from an epistemological perspective, positivism considers that an investigator (researcher) is totally objective, values are overcome by scientific procedures and that findings are true. Similarly, the post-positivism assumes the objectivity of the investigator. However, it regards it as a partial objectivity and considers that arriving at true findings is still a probability. The critical theory et al. paradigm considers that the investigator and the investigated are linked, various values affects the inquiry and that findings are meditated and subjective. Constructivism is alike the critical theory, however it considers that findings are created as the investigation progresses. Finally, participatory paradigm considers that created knowledge is characterised by critical subjectivity; here knowledge is derived through experimenting, proposing and co-creating of findings.

C- Methodological perspectives of alternative paradigms

Guba and Lincoln (2000) indicated that from a methodological aspect positivism usually deploys manipulative scientific experiments by which certain hypotheses are tested using quantitative methods. Post-positivism also deploys modified manipulative scientific experiments, here the objective is to falsify hypotheses, however, qualitative methods may be utilised within this paradigm. While, critical theory et al. depends on methodologies that require a dialogue between the investigator and the subject of investigation; as such the structure within this paradigm may be changeable. Constructivism includes consensus creation through participants' as well as the investigator's construction. Finally, the participatory paradigm methodologies utilised
encompasses analysis of social problems and political participation to satisfy the needs of ordinary people (Kemmis and Mc Taggart, 2000).

In conclusion, Creswell (2009:8-11) confirms that each of the above-mentioned paradigms of inquiry fit a particular research situation, problem or objective. For instance, the post-positivism paradigm “holds a deterministic philosophy in which causes probably determines effects or outcomes. Thus problems studied... reflect the need to identify and assess the causes that influence outcomes, such as found in experiments”. Indeed, this is reflected on the research methodology employed under the post-positivistic paradigm, where the research methodologies begin with theory, followed by data collection that either support or oppose the theory leading to further modifications if necessary. In contrast, with a constructivism paradigm the aim is to understand the world where a particular phenomenon is embedded as well as the complexities surrounding participants’ views. As such emphasis is given to questioning the processes and specific cultural and historical contexts underpinning such phenomenon. Here the research methodologies employed aims at inductive generation of theory.

So bearing in mind the above-mentioned characteristics of various paradigms together with the research problem, objectives and that corporate governance phenomenon is socially constructed, the constructivism paradigm would seem an appropriate paradigm of inquiry for this research. Because it acknowledges that there is multiple rather than single reality and that reality is socially constructed (Guba and Lincoln, 1989). More precisely constructivism paradigm fits understanding socially constructed phenomena such as corporate governance. The next section highlights the main features of the constructivism paradigm in more details, identifies its various types and differentiates it.

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from the so called interpretive paradigm; especially that both terms are usually used interchangeably (Guba and Lincoln, 1989). Finally, it concludes with the paradigm of inquiry utilized for this thesis.

3.5 Constructivist Paradigm of Inquiry

The constructivist paradigm has gained momentum as a competing paradigm to the traditional positivistic paradigm during the last century (Holstein and Gubrium, 2008). The constructivism emphasis was on the dynamic nature of social reality (ibid). A basic premise of constructivism is that “the world we live in and our place in it are not simply and evidently there for participants, Rather participants...construct the world of every day life and its constituent elements” (ibid: 3).

Constructivists argue that to a great extent, everyone is a constructivist if we accept the argument that one’s mind is “active in the construction of knowledge” (Schwandt, 2000: 197). Here, the knowledge is not passive and humans “do not find or discover knowledge so much as we construct or make it” (ibid).

Moreover, human’s construction of interpretation does not occur in isolation but intertwined with other factors such as shared “understanding, practices, language and so forth” (ibid). For constructivists, human’s mind at birth is in a blank state or “Tabula rasa”, it is the practice of “rational assessment of information provided by our senses that we acquire knowledge” (Weinberg, 2008: 17).

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39 It is important to note that the terms constructivism and constructionism are used interchangeably by sociology scholars (Guba and Lincoln, 2000; Holstein and Gubrium, 2008; Best, 2008; Samra-Fredricks, 2008; Gergen and Gergen, 2008; 2008b; Restivo and Croissant, 2008; Sparks and Smith, 2008; Hosking, 2008). However, the distinction that other scholars puts forward is that the earlier is defined in terms of meaning within the individual mind (Gergen and Gergen, 2008). The latter consider meaning-making as a product of human relationships (ibid.). Recently scholars have made it difficult to “sustain the distinction between constructivism and constructionism. Constructivists increasingly find mental practices to be reflection or embodiments of social process” (ibid.). So in this thesis the terms are used interchangeably and indeed, accept that meaning is constructed by the participants in their daily life (Holstein and Gubrium, 2008).
3.5.1 Constructivist Paradigm Contrasted to the Conventional (Positivist Paradigm)

In order to clarify the main characteristics of the constructivist paradigm, this section contrasts it with the positivist paradigm. Firstly, from an ontological perspective the conventional paradigm assume a "realist" ontology, which considers that there is a single reality which stands as unchangeable natural laws based on cause-effect relationships and accepts that truth exists (Guba and Lincoln, 1989).

In contrast the constructivist paradigm stresses on the existence of multiple realities that are socially constructed unbounded to natural laws. As such, this paradigm considers truth as "that most informed and sophisticated construction on which there is consensus among individuals most competent to form such a construction" (ibid: 86). From an epistemological perspective, the positivistic paradigm holds "a dualist objectivist epistemology" (ibid: 84), which refers to the ability of the researcher to be completely objective from the phenomena studied and exerts no influence on it. In contrast the constructivist paradigm assumes a "subjectivist epistemology" (ibid) that accepts the interrelation of the researcher and the phenomena. Hence the findings of the investigation are created through the process of inquiry.

Finally, the positivist methodological orientation is "Interventionist... that strips context of its contaminating .... Influences... as such, the truth can explain the phenomenon as it is, leading to the ability to predict and control" (ibid:84). While, the constructivist methodological orientation is hermeneutic by nature, it includes a "continuous dialectic of iterations of analysis ... leading to the emergence of a joint...construction of a case" (ibid).

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40 This is particularly useful because these two paradigms can be seen as two extremes on the continuum of paradigms of inquiry, also the constructivism paradigm has challenged the premises of the conventional positivism paradigm.
3.5.2 Social Constructionism

Constructionism may split into three versions: Social, psychological and radical constructionism (Constantino, 2008:116). Firstly, psychological constructivism is relevant to the education field; it deals with the issue of how people learn and how the instruction process should be carried-out. Psychological constructivism supposes that knowledge is not acquired but rather constructed. Secondly, social constructivism addresses both the epistemological and ontological questions of constructivism in “Describing the bodies of knowledge developed over human history as social constructs that do not reflect an objective external world” (ibid: 118). Here everything that an individual knows is determined by a number of factors including values, politics, religions, ideology and language.

Creswell (2009) adds that social constructivism utilises a research open-ended questioning. Thus, it normally achieves good results as it gives the researcher a chance to discover the subjective meanings ....negotiated socially and historically...formed through interaction with others (hence social constructivism) and through historical and cultural norms that operate in individual’s lives....they also focus on the specific contexts in which people live and work...the researcher's intent is to ... interpret the meaning others have about the world” (P.8).

According to Schwandt (2000), social constructivism does not only reject the “Naive realist” view of representation assumed by positivism. But also goes further and reject any interest in the ontology of “the real”. As such, social constructivism can be considered a non-ontological paradigm with no position regarding “what sorts of things exist and what their status is” (ibid: 197). While, epistemologically, social constructivism accepts the interaction between the researcher and the subject of research, as such the researcher is subjective (Gergen, and Gergen, 2008).

Thirdly; radical constructivism is an extreme form of the psychological versions, “It asserts that any external world is entirely a construction of an individual and exists in
3.5.3 Distinction between Interpretivist Paradigm and Constructivism

Interpretivist paradigm is often combined with constructivism (Costantino, 2008; Creswell, 2007; 2009). According to Guba and Lincoln (1989) both refer to the same paradigm. They stated that the constructivism paradigm is a replacement for traditional positivist paradigm. However, other researcher such as Schwandt (1998, 2000) differentiates between interpretivist and constructivism paradigms. He stated that the interpretivist paradigm "wrestle with maintaining the opposition of subjectivity and objectivity" (Schwandt, 1998:223). Interpretivist accepts the subjective experience, however "they seek to disengage from that experience and objectify it .... They struggle with drawing a line between the object of investigations and investigator... to develop an objective interpretive science of human experience thus arises" (ibid:224). They subscribe to subjective interpretation and objective understanding (Elharidy et al, 2008:42). Indeed, constructivism paradigm accepts that the interpretation is "the inquirer's construction of the constructions of the actors one studies" (ibid: 222). Thus it is subjective, therefore both paradigms are ontologically relativists, while the interpretivist is epistemologically objectivist and the constructivist is subjectivist.

3.6 Paradigm of Inquiry for this Research

Given that qualitative research encompasses various paradigms of inquiry (Guba and Lincoln, 2000). The main issue here is choosing the paradigm that best suits the research objectives, problem and matches the nature of corporate governance phenomenon. Consequently, this research will opt for a combination of social constructivism and interpretivist paradigms due to a number of reasons. Firstly, the nature of corporate governance phenomenon as a social construction and context specific would require the acceptance of the relative reality ontology. Secondly, as yet
little is known about corporate governance in the EBS context, one needs to understand the phenomenon from the perspective of actors who live in such particular context, who are in the position to tell the best about the phenomenon construction. As such the research is interested in studying the subjective meanings associated with the corporate governance phenomenon. Indeed, the researcher interpretations of these subjective meanings will reflect subjectivity of the researcher himself because “it is acknowledged that ...objectivity is difficult, as everyone has subjective tendencies. Yet recognizing subjectivity is part way to overcoming it” (Howell, 1998:12). Moreover, “Interpretive research uses theory to provide explanations of human actions, via logical consistency and agreement with the actors’ common sense interpretations” (Ryan et al, 2002:42). Indeed, the research is interested in the understanding of the subjective meanings held by actors within the context and at the same time needs to maintain an open mind towards the context studied in order not to place any constraints that obstructs discovering the nature of the phenomenon. Moreover, this study intends to utilize a formal theory (NIST) to further understand the phenomenon which means it subscribes to an objective epistemology. As such, the research through the combination of social constructivism and interpretivism is attempting objectivity through acknowledging subjectivity of the researcher (Howell, 1998). This is suitable for this thesis to build a substantive theory about corporate governance of banks using the NIST framework.

3.7 Research Methodology: Grounded Theory

Research methodology is an overall approach or strategy to the research process (Collis and Hussey, 2003). Research methodology should reflect the ontological and epistemological premises of the research (Schensul, 2008). Moreover, research methodology affects the choice of research methods or the techniques utilized for data collection (ibid). Here, as grounded theory is chosen as the research methodology for this thesis, this section will discuss the philosophical underpinnings of grounded theory,
its various types. It identifies grounded theory version utilized in this thesis in terms of fitting the ontological and epistemological assumptions of the research, as well as, the research problem. Finally, it highlights the distinctive features of grounded theory.

What is Grounded Theory?

Grounded theory aims to develop a substantive theory through comparative analysis and coding procedures (Howell, 2000). Glaser and Strauss (1967) argued that substantive theory is “developed from a substantive, or empirical, area of sociological inquiry .... such as .... organizations” (P. 32). Grounded theory “does not attempt to undermine theory but improve it” (Howell, 2000: 28). It considers that “A theory's only replacement is a better theory” (Glaser and Strauss, 1967: 28). According to Glaser (1978) it “is based on the systematic generation of theory from data, that itself is systematically obtained from social research. Thus, the grounded theory method offers a rigorous orderly guide to theory development” (P.2).

Grounded theory is based on comparative analysis and aims to build a theory on the basis of “general categories” (Howell, 2000: 28). It does not assume that the inquirer knows the substantive areas better than those involved in it; neither assumes that a theory will be a finished product (ibid). Indeed, it attempts to generate theory based on data collected and analyzed simultaneously as the research progresses (ibid).

Grounded theory is an “inductive qualitative methodology that allows the researcher to identify the main concern of a group of subjects and the behaviors they use to resolve their main concern” (Artinian et al, 2009: 3).

As such it can be contrasted to the logico-deductive theory which aims to verify deductibility driven hypothesis (Howell, 2000), it attempts to develop theory inductively (Glaser and Strauss, 1967). Reiterating Glaser and Strauss (1967), Howell (1998) indicated that

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41 Chapter Four starts with discussing the research methods used in this thesis discussing how various research methods are utilised during stages of grounded theory methodology.
grounded theory is inductively derived from the study of the phenomenon it represents. Data collection, analysis and theory are reciprocal with each other; one does not start with a theory which is then tested but an area of study from which what is relevant to the area becomes apparent. Induction needs to be grounded in social phenomenon or observations and experience; hence the link between inductive and grounded theory (P. 38).

Indeed, theory generation would include

verifying as much as possible with accurate evidence as possible is requisite while one discovers and generates his theory but not to the point where verification becomes so paramount as to curb generation (ibid:28).

As such, it may be possible to criticize a generated theory on the basis of missing data. But here and for those who may excessively be concerned with evidence Glaser and Strauss (1967) argued that “If each debunker thought about the potential values of comparative method (as the main strategy for generating theory) ... they would realize that he has merely posed another comparative datum for generating another theoretical property or category” (ibid: 22, author brackets). This would only help to develop the theory rather than falsify it, because “a theory's only replacement is another theory...theories are modified rather than proved” (Howell, 1998: 282).

3.7.1 Type of Theory Developed By Grounded Theory Methodology

Reiterating Strauss and Corbin (1990b), Howell (2000) stated that grounded theory's main objective is to construct substantive theory which has to meet four central criteria:

Fit, comprehension, generality and control: the theory should be induced from diverse data and be faithful to reality (it should fit). Secondly, the fit should be comprehensible; thirdly, the data should be comprehensive and interpretations conceptually wide (there should be generality, it should be made clear when conditions apply to specific situations and phenomena (there should control) (P.25).

According to Merriam (1988) theories can be classified into three types: “grand theories, which are most often found in the natural sciences; middle-range theories, which are placed higher than mere working hypotheses but do not have the status of grand theory; substantive theories, which are developed within a certain context” (Cited in Collis and Hussey, 2003:123). Laughlin (1995) has added that it is almost impossible to develop grand theories in social sciences where it is more likely to develop “skeletal theory” which is open for empirical data to give more enrichment in a
particular context. Howell (2004) adds that substantive theory is derived from the study of a specific area, while grand and meso theories are of more abstract and highly conceptual nature. He added, as substantive level theories being more specific it is easier to identify the “cause and effect or dependent and independent variables” but harder to give “full understanding and explanation” (ibid: 7). However, this does not mean that the value of substantive theories shall be undermined, as a substantive theory may have “important general implications and relevance, and become almost automatically a spring-board or stepping stone to the development of a grounded formal theory” (Glaser and Strauss, 1967:79). Still the aim of grounded theory is to develop a substantive level theory, Strauss and Corbin (1990b) clearly outlined this when they indicated that

_Levels and types are sometimes confused... one can have theory about a given phenomenon ... about an organizational or biographical phenomenon... a theory about a phenomenon ... can still be substantive theory ... note that any substantive theory evolves from a study of a phenomenon situated in one particular situation context... A formal theory, on the other hand, emerges from a study of a phenomenon examined under many different types of situations... when developing a formal theory you might study status in several types of situations, say status of persons within families, the status of socialites within a given city, and the status of various professional ranks within academic institutions (P. 174)._  

3.7.2 Philosophical Origins of Grounded Theory

Since the introduction of grounded theory by Glaser and Strauss (1967), it has evolved as its originators have further articulated and adopted the very method of grounded theory (Locke, 2003). Moreover, their students have also contributed to its evolution and though these students have tried to stick to the core concepts and tenets of grounded theory, nothing have stopped them to develop their own style of grounded theory (ibid; Gurd, 2008). One example is Kathy Charmaz á student of Glaser and Strauss, who developed her own style of constructivist grounded theory (Mills et al, 2006; Charmaz, 2006; Gurd, 2008). Additionally, substantive researchers who learned and utilized grounded theory and incorporated it in their work have also “further interpreted its research practices” (Locke, 2003: 2).
Indeed, this has created some confusion in relation to the variety of methodological stances of various models labelled grounded theory (Heath and Cowley, 2004; Elharidy et al, 2008; Parker and Roffey, 1997; Jones and Noble, 2007; Mills et al, 2006; Gurd, 2008; Tan, 2010).

Notably, various grounded theory models or versions have taken various paradigmatic stances, for instance the original Glaser and Strauss grounded theory has its roots laying in American pragmatism and the symbolic interactionism school, which indicates that grounded theory could be located within the interpretive paradigm (Lock, 2001, 2003; Howell, 2000; 1998; Gurd, 2008; Heath and Cowley, 2004). As such, it assumes a relativist ontology and objectivist epistemology. However, others such as Denzin and Lincoln (1994) consider that the classic grounded theory has reality ontology and objective epistemology and thus belongs to post-positivist paradigm (Lock, 2003; Annells, 1996).

Later variations of grounded theory, such as Glaser (1978, 1992) can also be related to post-positivism orientation (Moghaddam, 2006). While Strauss and Corbin version (1990b; 1994; 1998) are more associated with the interpretive paradigm tradition (Locke, 2003). It should be noted that the literature includes somewhat confusing opinions about the paradigmatic orientation of Strauss and Corbin version of the grounded theory (Mills et al, 2006). However, their acknowledgement of the importance of multiple realities and truth locates them in the interpretive paradigm (ibid), especially that they assume the objectivity of the researcher (Moghaddam, 2006). Finally, Charmaz (2000, 2002, 2006) has developed another variant of grounded theory: constructivist grounded theory. Charmaz addressed the position of the researcher as a co-producer of data jointly with participants; as such she acknowledges that grounded theory should maintain a relativist ontology (Mills et al, 2006); but with a subjectivist epistemology, because "theory depends on the researcher's view; it does not and cannot stand outside
of it" (Charmaz, 2006:130). Obviously, this locates Charmaz grounded theory in the constructivist paradigm (ibid).

In conclusion, the above discussion clarifies that in grounded theory "paradigm lines are not always clearly drawn ... they are determined more by the commitments of individual researchers than by the operational practices of a research approach" (Locke, 2001:13).

However, researchers who identify clearly their ontological and epistemological stances, can then "choose a point on the methodological spiral of grounded theory" (Mills et al, 2006:7). Grounded theory as such "transcends a simple categorization of methods and involves deeper assumptions about the philosophical basis of doing research" (Elharidy et al, 2008:148).

In this thesis, the paradigm of inquiry is a combination of interpretive and social constructionism. As such it regards grounded theory as trying "to understand reality through social constructions and an attempt at objectivity through recognizing the subjectivity of the researcher and researched in terms of their interpretive nature" (Howell, 1998: 13). Therefore this thesis will attempt to build a substantive theory of BCG phenomenon based on the subjective meanings associated with those who live the phenomenon, thus investigating the phenomenon as it is socially constructed. Acknowledging that the interpretations of the phenomenon will essentially be affected by the researcher subjectivity "as no one would claim to enter the field completely free from the influence of past experience and reading" (Heath and Cowley, 2004:143). But through the comparative analysis (Glaser and Strauss, 1967) which is a fundamental canon of grounded theory the study will not only approach the research with an open mind, but also will attempt to minimize subjectivity. To achieve this, the thesis shares

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42 More realistically is "to acknowledge that a researcher's perspective can shape their inquiry without this perspective simply being applied to the data" (Hardling, 2006: 132).
the paradigmatic orientation of a combination of the following versions of grounded theory:

- Strauss and Corbin (1990b, 1998) version of grounded theory with a relativist ontology and objectivist epistemology as in the interpretive paradigm.

3.7.3 Reasons for Utilizing Grounded Theory Methodology

In the light of the research problem, the nature of the phenomenon investigated and the philosophical stances of this thesis, grounded theory research methodology is chosen on the following grounds:

- Grounded theory allows the generation of a substantive theory that "offers insight, enhances understanding, and provides a meaningful guide to action" (Strauss and Corbin, 1998: 12). Obviously, this matches the research objective of understanding the nature of corporate governance phenomenon to effectively enhance corporate governance practices. Moreover, grounded theory "is more likely to resemble the reality" (ibid) as it is grounded on data from the substantive area (ibid). It builds theory faithful to the situation investigated (Collis and Hussey, 2003). As such it can provide an understanding of the corporate governance phenomenon taking into consideration the particular characteristics of the context in which it is embedded. This qualifies grounded theory to offer the understanding of corporate governance phenomenon within the EBS, identify its critical aspects and how it is shaped within this context.

- Grounded theory provides the opportunity for generating a substantive theory that can be compared to formal theory, towards generating more formal substantive theory. Hence, this also matches another aspect addressed by this research. That is to demonstrate how the NIST can be used as an alternative
corporate governance theoretical framework.

- The philosophical assumptions of this thesis using a combination of interpretive and social constructionist paradigm can be met with a combination of grounded theory versions of Strauss and Corbin (1990b, 1998) and Charmaz (2000, 2002, 2006). This is quite important because it safeguards against the danger related to "that the focus of the researcher could be on how to verify the emerging codes rather than on how to understand the nature of the phenomenon being studied: (Elharidy et al, 2008: 148).

- As grounded theory is based on the canons of the comparative method, the systematic analysis and concurrent data collection; in addition to being acknowledged as a rigorous approach that "forces the researcher to look beyond the superficial, to apply every possible interpretation before developing final concepts, and to demonstrate these concepts through explication and data supported evidence" (Goulding, 2004: 297). It provides a faithful attempt to develop substantive theory that reflects socially constructed reality. Moreover, grounded theory has been selected by many researchers in numerous empirical studies where the emphasis has been on studying the phenomenon within a particular social construct (Locke, 2001; Bourmistrov and Mellemsvik, 2002). This includes in the area of Accounting Gurd (2008), in Management Accounting Elharidy et al (2008), in Management Research Locke (2001). Also, in Corporate Governance Goddard and Assad (2006) and Nwanj (2006); and in Political Sciences and specifically in studying of European integration in financial institutions Howell (1998, 2000, and 2004) has used the grounded theory methodology. This confirms the suitability of grounded theory for this study.
3.7.4 Alternative Approaches to Grounded Theory Procedures

Although grounded theory was introduced by both Glaser and Strauss (1967), two well-known approaches to grounded theory procedures emerged from their original work: Glaser (1978, 1992) and Strauss and Corbin (1990b, 1998). Contrasting these approaches was an area of interest for many researchers such as Parker and Roffey (1997); Howell (2000); Heath and Cowley (2004); Jones and Noble (2007); Gurd (2008) and Elharidy et al (2008). However, Parker and Roffey (1997) provide a comprehensive summary of the principal differences between the two approaches as shown in table 3.1.

First, Glaser determines an area or an organization for undertaking the study and allows the research issues to emerge during the course of the research process, while Strauss and Corbin allow for a more specific identification of the research issue or phenomenon that is to be studied. For Glaser, research issues become visible through “observations in the field through the detailed process of coding leading to theoretical saturation” (Elharidy et al, 2008:145). His emphasis is on the development of research issues during coding procedures “as perceived by the people being observed in the study” (ibid). While to Strauss and Corbin, the researcher can determine beforehand to direct the data collection and sampling towards a “particular issue” or phenomenon\(^3\) (Parker and Roffey, 1997:223).

Second, the analytical procedures identified by Glaser (1992) and Strauss and Corbin (1990b, 1998) are different. While, Glaser (1992) requires that the analytical methodology be more general with less structured framework, Strauss and Corbin (1990b, 1998) have developed a more structured analytical framework composed of three types of coding (Open, Axial and Selective coding) and a paradigm model that interrelates various categories (conditions, actions / reactions, consequences) pertaining

\(^3\) Such as studying BCG phenomenon within the EBS
### Table 3.1 Alternative Approach to Conducting Grounded Theory

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Glaser approach</th>
<th>Strauss and Corbin</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Research Issue</strong></td>
<td>• What are the chief concerns / Problem people in the area under study?</td>
<td>• The research question is a statement that identifies the phenomenon to be studied.</td>
</tr>
<tr>
<td></td>
<td>• What category does the concern indicate?</td>
<td></td>
</tr>
<tr>
<td><strong>Procedures</strong></td>
<td>• The problem emerges and should not be forced by the methodology.</td>
<td>• Researcher need help with the interpretation process: procedures and techniques</td>
</tr>
<tr>
<td></td>
<td>• Categories and their properties “emerge” through constant comparison of incident to incident.</td>
<td>need to be spelled out. Subcategories are linked to categories that denote a set of relationships (i.e. casual conditions, action / interaction strategies, and consequences).</td>
</tr>
<tr>
<td><strong>Ease of Operations</strong></td>
<td>• Can be difficult to operationalize</td>
<td>• Easier to operationalize</td>
</tr>
<tr>
<td><strong>Theory Formulation</strong></td>
<td>• Generates concepts and their relationships to explain and / or interpret variations in behaviour in the substantive area under study.</td>
<td>• Generates an inductively derived theory about a phenomenon comprised of interrelated concepts.</td>
</tr>
<tr>
<td></td>
<td>• Produces a theoretical conceptual hypothesis. Testing is left to other researchers interested in such work.</td>
<td>• Undertakes continual verification and testing to determine likely validity of concepts and relationships between them.</td>
</tr>
<tr>
<td><strong>Use of Existing Literature</strong></td>
<td>• Should not review the literature</td>
<td>• Literature review can stimulate theoretical sensitivity, can be source of data, stimulate questions, direct theoretical sampling.</td>
</tr>
</tbody>
</table>

**Source:** Based on Parker and Roffey (1997)

to the phenomenon studied aiming to produce a substantive theory. However, Strauss and Corbin (1998) have stressed that the procedures they set out in their book aimed to provide “some standardization and rigor to the process...these procedures were designed not to be followed dogmatically but rather to be used creatively and flexibly by researchers as they deem appropriate” (P.13). Glaser (1992) advocates open and theoretical coding approaches which are purely emergent. Glaser (1992) considers that
Strauss and Corbin’s coding procedures as forcing rather than emergence of theory. He considered that using of axial coding, paradigm model and conditional matrix as departure from the original version of grounded theory introduced by Glaser and Strauss in 1967 (Charmaz and Bryant, 2008).

Although, coding procedure are seen as a key divergence point between the two approaches (Jones and Noble, 2007), the fact that both approaches make use of constant comparison of incidents and apply theoretical sensitivity to develop theory, make the issue of divergence debatable.

Glaser would argue that whereas his essentially neutral and passively executed in order to ensure the emergence of the underlying reality within the data, the Straussian approach results in the forcing of data into pre-determined categories and obstructs the emergence of what the data really saying. However, the actual difference for the practising grounded theory researcher may be difficult to discern (Jones and Noble, 2007:92).

Third, Glaser (1992) and Strauss and Corbin (1990b) agreed on that Glaser’s general framework is difficult to operationalise when compared to the more structured detailed steps provided by Strauss and Corbin (Parker and Roffey, 1997).

Fourth, Glaser’s version of grounded theory focuses on hypothesis development and integration of these hypotheses “grounded theory is not verification... hypothesis need not be verified, validated or be more reliable” (Elharidy et al, 2008:144). Here the verification of the emergent hypothesis is left to other researchers who are interested in the substantive area. On the other hand, Strauss and Corbin’s version seeks verification of the emergent categories and their relationships (Parker and Roffey, 1997).

Lastly, Glaser believes that the researcher should not review the literature before data collection and analysis to avoid any sort of forcing or having preconceived ideas, interpretations, bias or pre-conceptions about the studied phenomena. He said:

In GT there is no preconception of being too broad or global or too narrow at whatever stage... the emerging questions simply tap the variables that work whatever the field ...in contrast the dictum in grounded theory research is: there is a need not to review any of the literature in the substantive area under examination (Glaser, 1992:25-31 cited in Elharidy et al, 2008:146).
Conversely, Strauss and Corbin consider that it is practically impossible to discard the knowledge, training and professional experience of the researcher when conducting grounded theory; they reiterate Dey (1993:63):

*there is a difference between an open mind and an empty head. To analyze data, we need to use accumulated knowledge, not dispense with it. The issue is not whether to use existing knowledge, but how (Dey, 1993: 63 cited in Strauss and Corbin; 1998: 47)*

Strauss and Corbin (1998) put it forward as follows:

> As we come across an event of interest in our data, we ask, what is this? Later, as we move along in our analysis, it is our knowledge and experience... that enables us to recognize incidents as being conceptually similar or dissimilar and to give them conceptual names. It is by using what we bring to the data in a systematic way that we become sensitive to meaning without forcing our explanations on data (Strauss and Corbin, 1998:47)

Strauss and Corbin (1990b) argue that at a certain stage of the research the researcher will encounter an issue with background in the literature in such situation:

*It is important to acknowledge and use that...however, there is no need to review all of the literature beforehand as is frequently done by researchers trained in other approaches, because if we are effective in our analysis, then new categories will emerge that neither we, nor anyone else had thought previously... since discovery is our purpose, we do not have beforehand knowledge of all categories relevant to our theory (P.50).*

Strauss and Corbin (1990b) identified that technical literature can be valuable in a number of ways: it can be used to stimulate theoretical sensitivity by providing concepts and relationships that can be checked against actual data collected, it can be a secondary source of data, it can stimulate questions, direct theoretical sampling and act as a source of secondary validation.

### 3.7.5 Rationale for Using Strauss and Corbin Version of Grounded Theory

This study adopts Strauss and Corbin’s (1990b, 1998) grounded theory approach for a number of reasons. Firstly, as Strauss and Corbin (1990b, 1998) is located within the interpretive paradigm, it shares the same ontological stance (relativism) assumed here in this study.

Secondly, before conducting the study the researcher identified the phenomenon to be investigated (corporate governance in the EBS), whereas Glaser advocates conducting
the study without predetermining the phenomenon to be studied as this will emerge during the research process as implied by interaction with the participants.

Thirdly, the researcher has reviewed the literature to establish the importance of the research while the research themes were left to emerge during the course of research.

Fourthly, this approach provides a more structured and practically oriented method for generating theory which can be helpful to understand large volumes of data collected "yet they are not restrictively prescriptive"; this practicality is crucial especially in the case of time constrained studies (Parker and Roffey, 1997:223).

Fifthly, Strauss and Corbin approach has been used in many management studies, for instance Gurd (2008) reviews grounded theory research in the discipline of accounting and concluded that Strauss and Corbin procedures to grounded theory has been adopted in most of these studies.

3.7.6 Fundamental Principles of Grounded Theory Approach

Grounded theory is based on a number of fundamental principles, most importantly this include simultaneous collection and analysis of data, constant comparative method and coding procedures (Charmaz, 2000:510-511). This can be further discussed as follows:

I. Simultaneous collection and analysis of data

Unlike other qualitative researches that collect most of their data prior to analysis, the grounded theory analysis procedures begin as soon as the "first bit" of data is collected. The simultaneous collection of data and analysis is fundamental to grounded theory and the development of the emergent substantive theory (Strauss and Corbin, 1990a; Howell, 2003a). Strauss and Corbin (1990a) determine that the rationale of this principle is that analysis guides the next data collection; the grounded theorist enters the field with some questions or areas in mind, while simultaneous data collection and analysis either confirms these questions or areas as relevant to the theory generation or irrelevant and have to be discarded (ibid). Moreover, being open and analysing for cues
and hunches protect against missing "anything that may be salient... All seemingly relevant issues must be incorporated into the next set of interviews and observations" (ibid:6). Strauss and Corbin (1990a) reassure that

This Process is a major source of the effectiveness of the grounded theory approach. The research process itself guides the researcher toward examining all of the possibly rewarding avenues to understanding. This is why the research method is one of discovery and one which grounded a theory in reality... Every concept brought into the study or discovered in the research process is at first considered provisional. Each concept earns its way into the theory by repeatedly being present in interviews, documents, and observations in one form or another—or by being significantly absent... grounding concepts in the reality of data thus gives this method theory-observation congruence or compatibility (P.6-7).

II. Constant Comparative Method

The grounded theory analysis employs a constant comparison method where incidents are compared one to another and the subsequent concepts emerging are also compared with one another. This process leads to discovering concepts, their characteristics and the range of these characteristics (Strauss and Corbin, 1990b). Moreover, constant comparisons help "guarding against bias, for he or she is then challenging concepts with fresh data. Such comparison also helps to achieve greater precision (the grouping of like and only like phenomena) and consistency (always grouping like with like)" (Strauss and Corbin, 1990a).

III. Coding Procedures

According to Strauss and Corbin (1990a, 1990b, 1998) coding is the principal analytical process within grounded theory research. It is "the analytical processes through which data are fractured, conceptualized, and integrated to form theory" (Strauss and Corbin, 1998:3). There are three types of coding processes: open, axial and selective coding.

Open Coding

Open coding is the "interpretive process by which data are broken down analytically" (Strauss and Corbin, 1990a: 12). Open coding aids the researcher to view the phenomenon studied in a non-traditional approach. Within the open coding the researcher compares instance one another grouping similar concepts that emerge from
the data collected to form higher level abstract categories and sub-categories (ibid).

Then these emerging categories and their characteristics become the basis for theoretical sampling. By asking questions and comparing categories more specificity is achieved and any ambiguities encountered in the data are resolved. Moreover, this guard against subjectivity, bias and forcing. Also errors will be identified as it will not fit within the emerging concepts (Strauss and Corbin, 1990a).

**Axial Coding**

It refers to "**bringing the analysis together and provides unity**" (Howell, 2000:33). In axial coding data are put back together in new ways by making connections between categories. This is done by utilizing a coding paradigm which provides a framework to identify the phenomenon and link it with sub-categories namely: conditions, context, action/interactional strategies and consequences (Strauss and Corbin, 1990b).

During axial coding the concern to develop categories is still present but in terms of their relationships within a paradigm model, rather than in terms of their dimensions and properties; it should be noted that during axial coding "**we are not talking about relating of several main categories to form an overall theoretical formulations, but the development of what will eventually become one of several main categories** (Strauss and Corbin, 1990b:97). Although, open and axial coding are two distinctive analytical procedures within grounded theory analysis, researcher can move back and forth between them, as such axial coding is not necessarily subsequent to open coding. Finally, relationships developed during this stage must be considered provisional till evidence, incidents and events confirm or refute these relationships, and while these relationships are not necessarily refuted additional scrutiny against incoming data adds variation and depth to the understanding of the phenomenon studied (Strauss and Corbin, 1990b).
Again, it is obvious that coding procedures explained above exemplifies the move between induction and deduction thinking. Where, relationships, properties and dimensions appertaining to a particular category are derived by induction from data, they are verified (by deduction) by comparing them to incoming data. There is "constant interplay between proposing and checking. This back and forth movement is what makes our theory grounded!" (Strauss and Corbin, 1990b:111).

Selective Coding

It is defined as "The process of selecting the core category, systematically relating it to other categories, validating those relationships, and filling in categories that need further refinement and development" (Strauss and Corbin, 1990b: 116). It involves identifying of the core category which reflects the "central phenomenon of the study... the other categories will always stand in relationship to the core category as conditions, action/interactional strategies, or consequences" (Strauss and Corbin, 1990a:14).

Selective coding involves the important aspect of relating categories to the core category; this should take place by the means of the paradigm model (ibid). it should be noted that during axial coding some integration should have taken place, while in selective coding the set of conceptual relationships will be refined around the identified core category, this may include going back to the field to saturate missing details; the focus at this stage is to develop "all interpretive work done over the course of ... research" (Strauss and Corbin, 1990b: 142).

Finally, coding within grounded theory approach should take into account process, Strauss and Corbin (1998:163) defined process as "sequence of evolving action/interaction, changes in which can be traced to changes in structural conditions". Moreover, process is the "sequence of action / interaction that occur over time and space, changing or sometimes remaining the same in response to the situation or context" (ibid: 165). Processual analysis should work at the micro and macro levels,
Strauss and Corbin (1998:179) identified that the process and structure should be linked as the former represents the "dynamic and evolving nature of action / interaction" while the latter: "creates the context for action / interaction and, as such, is what gives the (process) rhythm, pacing, form, and character" (ibid). Process provides the difference between a "snapshot and a moving picture" (ibid).

3.8 Conclusion

On the basis of the research problem, the thesis theoretical assumptions (ontological and epistemological stances) and the degree of uncertainty surrounding the investigated phenomenon of BCG (Trauth, 2001), this thesis has chosen a qualitative research design. This thesis attempts to fill the gap identified in the literature review concerning the general lack of research of BCG, especially, within the Egyptian context. Moreover, the thesis attempts to demonstrate how an alternative theoretical underpinning of NIST can explain the complex phenomenon of corporate governance. Yet provide a rich understanding of the corporate governance phenomenon compared with the limited views offered by the traditional corporate governance theorizing (shareholding v. stakeholding). Indeed, this chapter indicated that much uncertainty surrounds the corporate governance phenomenon in the Egyptian context. Thus, both the research problem and the nature of the investigated phenomenon support the selection of a qualitative research design.

This chapter explained various paradigms of inquiry within qualitative research and differentiated between them on the basis of their ontological, epistemological and methodological stances. A combination of interpretive-social constructionist paradigms is selected to underpin the methodology of this research; reflecting a relativist ontology and an attempt to objectivity through acknowledgement of subjectivity (Howell, 1998). Indeed, the basic objective of this thesis is to build a substantive theory of BCG using an alternative theoretical framework of NIST. The combination of the interpretive-
social constructionist paradigms permit that, while both paradigms look at the subjective meanings of socially constructed phenomenon. The interpretive paradigm through its subscription in the objective epistemology permits the use of formal theory to offer explanations of human activities and actions. Overall, overcoming the subjectivity associated with social constructionism is attempted in this thesis through acknowledging subjectivity.

Moreover, through the discussion of the nature of grounded theory methodology, the type of theory it develops and its philosophical origins. This chapter chooses grounded theory methodology to build the substantive theory of BCG based on the following: It can provide the understanding of the corporate governance phenomenon reflecting the context where it is embedded and as such meet the research objectives. It permits the generation of substantive theory that can be compared to formal theories to give it more formality. As such it fits the attempt to explain the substantive theory using NIST as an alternative theoretical framework for corporate governance. Moreover, a combination of Strauss and Corbin (1990b, 1998) and Charmaz (2000, 2004, 2006) versions of grounded theory matches the philosophical underpinnings of this thesis, this mitigates the danger of altering the focus of the researcher on verification of emerging codes rather than on understanding the phenomenon investigated (Elharidy et al, 2008: 148).

Grounded theory is a rigorous qualitative methodology (Goulding, 2004). Additionally, it has been the choice of qualitative researchers across various disciplines including corporate governance (See Goddard and Assad, 2006 and Nwanji, 2006).

This chapter has also presented the alternative approaches for grounded theory procedures namely the Glaserian approach (1978, 1992) and Strauss and Corbin approach (1990b, 1998). It highlights the core differences between the two approaches; and presents the rationale for selecting Strauss and Corbin approach in this thesis. Strauss and Corbin's version is located in the interpretive rather the post-positivist
paradigm as such it shares the same ontological stance of this thesis (relativist). It permits determining the phenomenon to be investigated before entering the field as well as reviewing the literature beforehand; it also focuses on the emergence of research themes during the research process (Parker and Roffey, 1997). It is more structured but not restrictively prescriptive as such useful in time restricted studies (ibid). Finally, it has been very popular in many management studies (Guard, 2008).

Data collection methods used in this thesis and theoretical sampling techniques are discussed in the following chapter. In addition to the analysis of the survey questionnaire which highlights important areas and issues that should guide further data collection using semi-structured interviews (A).
Chapter Four

Data Collection, Sampling and Analysis of Survey

4.1 Introduction

This chapter explains data sampling and research site selection applied within this thesis. It discusses the concept of theoretical sampling and how data collection methods are related to its different types. It also discusses grounded theory coding procedures applied in this thesis and their relation to data collection. Finally, this chapter presents the survey analysis and concludes with the important areas that enlighten semi-structured interviews (A) questions formulation within open coding stage which is covered in the next chapter.

4.2 Data Sampling and Research Site Selection

The research scope included commercial banks operating in Egypt. These included both State-owned and privately owned banks. All these banks are registered with the CBE which is the sole authority regulating the banking industry in Egypt. In order to obtain rich data and account for variation as much as possible all commercial banks were approached.

This research was based on grounded theory technique of theoretical sampling. As advocated by Strauss and Corbin (1990b, 1998), theoretical sampling is an important process within grounded theory to construct rich categories that are well related to each other. It is sampling

on the basis of concepts that have proven theoretical relevance to the evolving theory. These concepts are deemed significant because (1) they are repeatedly present or notably absent when comparing incident after incident, and (2) through the coding procedures they earn the status of categories. The aim of theoretical sampling is to sample events, incidents and so forth... those are indicative of categories, their properties and dimensions, so that you can develop and conceptually relate them (Strauss and Corbin, 1990b:177).

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There are important features that should also be kept in mind during the investigation process namely: to be cumulative as "concepts and their relationship also accumulate through the interplay of data collection and analysis" (ibid). Be consistent where data is gathered "systematically on each category" (ibid). Moreover, it should ensure "variation and process as well as density" (ibid). Finally, theoretical sampling should balance between advance planning and flexibility to avoid breaking a fundamental condition of grounded theory method that is sampling on the basis of the evolving theoretical relevance of concepts (ibid: PP.177-178).

Three types of theoretical sampling were utilized in this thesis according to the purpose of various coding stages of grounded theory. First, open sampling is related to open coding and aims developing relevant categories as much as possible. This would entail that the researcher should be open to sampling choices rather than specific. However, this does not entail inconsistency in data collection; conversely, consistency should not be compromised (Strauss and Corbin, 1990b, 1998).

Second, relational and variational sampling related to axial coding, here the emphasis of sampling is to "relate categories in term of the paradigm conditions, context, action / interaction, and consequences" (Strauss and Corbin, 1990b:185). A main issue is to discover the dimensional differences of categories.

Third, discriminate sampling is related to selective coding. Here sampling focuses on validation of the relationships discovered by analysis as well as filling any categories in case they need further development (ibid). Essentially, this requires that sampling become "directed and deliberate" (ibid). This would require returning to old research sites, documents and persons where the required data can be gathered.

Reaching this stage of sampling means that it will continue till theoretical saturation happens when (1) no new or relevant data seems to emerge regarding categories, (2) the category development is dense, and all of the paradigm elements are accounted for,
along with variation and process; (3) the relation between categories are well established and validated (Strauss and Corbin, 1990b, 1998).

The research has mainly targeted commercial banks where the phenomenon of corporate governance is taking place. Being guided by the concept of theoretical sampling and as the research progresses, additional sources of data emerged. Indeed the application of theoretical sampling technique led to approaching these additional research sites. These research sites were: CBE, the International auditing firms, the Egyptian stock market, the Egyptian Banking Institute and the Egyptian Institute of Directors. Approaching these sites added to the theoretical richness of the categories.

4.3 Data Collection Methods in Relation to Theoretical Sampling

A combination of data collection methods was employed which makes it possible to discover categories, understand their characteristics and allow building relationships between categories. Indeed, data collection methods are linked to various types of theoretical sampling as will be shown in this section.

The data collection methods used in this thesis are survey and semi-structured interviews. The role of the survey was to identify important areas related to the phenomenon under investigation and hence enlighten questions formulation in subsequent semi-structured interviews (A). Indeed, the semi-structured interviews (A) are the fundamental data collection method used during the stages of open and axial coding in order to develop categories and explore the relationships between them. More precisely, in open coding the semi-structured interviews (A) are the fundamental method that contributes to the discovery of open categories in terms of their properties and dimensions; while, in axial coding it contributes in identifying main categories as

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45 Two rounds of Semi-Structured interviews were implemented in this study. Semi-Structured interviews (A) related to Open, variational / relational and Discriminate Sampling. While semi-structured Interviews (B) is linked only to discriminate sampling. The latter was implemented at the stage of selective coding, while, the former was principally implemented during the stages of Open and Axial Coding.
well as discovering the relationships between these categories. Semi-structured interviews (B) were utilized at the stage of selective coding to select the core category and verify its relationships with other categories (Strauss and Corbin, 1990b).

Although the intention of the researcher was to utilize focus groups at the selective coding stage, this was infeasible because the participants' were reluctant to participate in focus groups sessions because they thought that this would impair their anonymity. This was fully respected, especially that the research has guaranteed their anonymity at all times. However, the researcher has asked them for participating in semi-structured interviews (B) as an alternative data collection method. Various data collection method can be discussed in more detail in the following sections.

4.3.1 Accessibility to Data

To understand the phenomenon of corporate governance it was necessary to approach bank executives and directors and other government officials and professionals as deemed necessary guided by theoretical sampling technique. Indeed, corporate governance is the ultimate responsibility of board directors and the executive managers of banks (BCBS, 2010).

Here, it should be noted that accessibility to data for this research was a major challenge, in particular because executive managers and board directors were reluctant to participate in any research. Also, it was difficult to get in-touch with them to ask for participation in a research project. As such, beside the formal contact with banks by the means of the university approach letter and the follow-up phone calls, networking with influential highly respected bankers known to the researcher facilitated access to.

The University letter states the purpose of the research and the data collection requirements and clearly guarantees that the research will be operated on anonymous basis. The letter is in appendix (1)

Whom the researcher has worked with through his current position in a well-known research institute in Egypt. Or, whom the researcher knew during his training in the Egyptian banking sector. Also, a governmental official was amongst the participants of this research and showed interest to facilitate accessibility to senior managers and board members in various banks. However, confidentiality of interviewees was always observed.
bank employees and other participants in this research. Most of participants approached gave their consent to participate in the research. It must be noted that all participants were handed a copy of the university letter before asking them to fill the survey or participate in the Semi-Structured interviews to give them an idea of the research objectives and data required and assure them that the research is administrated on anonymous basis where their confidentiality is fully guaranteed. It can be argued here that the difficulty to gain access to directors and executives of various banks is one obvious reason that corporate governance of Egyptian banks has not been researched to date.

4.3.2 Survey

A survey “provides a quantitative or numeric description of trends, attitudes, or opinions of a population” (Creswell, 2003:153). As such surveys play an “ambiguous role” within grounded theory methodology (Howell, 2000:40). Reiterating Strauss (1987), Howell (2000) demonstrates that adopting grounded theory methodology requires flexibility from the researcher as to data collection and use in order to be able to generate theory. This flexibility denotes the freedom to use quantitative data but relaxing the “rules of verification and accuracy of evidence to enable further theory generation” (ibid). Moreover, Strauss and Corbin (1990b; 19) add that “one might use qualitative data to illustrate or clarify quantitatively derived findings...Or, one could use some form of quantitative data to partially validate one's qualitative analysis”.

Although, “surveys are not purely grounded theory techniques, used in certain ways they may benefit theory generation. In this context, surveys may be utilized in a grounded theory study and eventually they may be considered as part of the technique” (Howell, 2000:40). In agreement with Glaser (1992), Howell (2000) agrees that qualitative data analysis can utilize quantitative or qualitative data or a combination of both depending on the nature of the research itself.
This study has employed a survey at the early stage of research; the survey aims to explore the quality of corporate governance practices at various banks. Thus the survey is considered an initial stage of data collection that would facilitate asking more precise questions at the semi-structured interview (A). Indeed, the survey contributed in early formulation of semi-structured interviews questions. The survey is related to the research question: *what are the strengths and weaknesses of bank's corporate governance practices within the EBS?*

This survey was distributed to all commercial banks totalling 30 banks along with the official approach university letters. The survey was sent to the chairman’s office and followed up by a phone call seeking a contact person to follow-up the completion of the survey. Networking with bankers was effective in this respect as mentioned above.

The survey is composed of 14 statements addressing corporate governance practices quality of banks. Here the survey has focused on some of the corporate governance aspects that the only previous survey conducted by the EBI (2006) had identified as corporate governance strengths and weaknesses of the EBS and as shown in part three of the literature review. This is acceptable in grounded theory studies especially at the early stages of open sampling where "initial questions or areas for observation are based on concepts derived from literature or experience" (Strauss and Corbin, 1990b:180). Moreover, Strauss and Corbin (1990b, 1998) added that grounded theorist need to recognize that

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48 According to the official list of banks registered with the central bank of Egypt on 14th May 2008 (Appendix 2).

49 The EBI (2006) survey has included numerous factors to express corporate governance quality of the EBS. It was based on international corporate governance principles of the OECD and Basel committee report on enhancing corporate governance of banking organizations (2005). However, this survey reported its results in an aggregate format without distinguishing between various types of banks (Foreign, private, state). Although, the few available literature entries about corporate governance of the EBS, consistently regarded that state owned banks have low corporate governance quality (Mohieldin, 2007; Mohieldin and Nasr, 2007). As such the survey utilized in this study has used the areas questioned in corporate governance structures of the EBS and aimed at exploring them on an individual bank basis. To be able to gain richer data and identify the tentative areas for the semi-structured interview questions.

50 Chapter 2
Whether... want to admit it or not... cannot completely divorce from who we are or from what we
know... But insights do not just occur haphazardly; rather they happen to prepared minds during
interplay with the data... To quote Day (1993)... there is a difference between open mind and
empty head. To analyze data, we need to use accumulated knowledge, not dispense with it, the
issue is not to use existing knowledge but how (Strauss and Corbin, 1998:47).

Analysis of the survey has opened important areas which were addressed during the
semi-structured interviews (A). A total of 21 responses have been received representing
opinions of participants from 21 banking organization equivalents to 70% of the whole
population of banks.

4.3.3 Semi-Structured Interviews (A)

Semi structured interviews (A) questions were developed informed by the surveys and
informal conversations with the participants in many occasions including when
contacting them to ask for the participation of the study. Semi-structured interviews
aimed at understanding the phenomenon of corporate governance from the perspective
of bank directors and executives and other relevant professionals or officials who live
the phenomenon. It is worth noting that as simultaneous analysis proceeds, some of the
earlier developed concepts required modification, whereas others had proven theoretical
relevance and were taken to subsequent interviews for confirmation and discovery of
more characteristics or variation if any, this happens by continuous questioning and
comparison of interviews one to another with respect to the emerging concepts. This
was compared against Strauss and Corbin’s (1990b, 1998) criteria of significance. As
such these interviews contributed to various sampling stages of sampling including
open, relational, variational and discriminate sampling.

A total of 44 interviews were conducted with 34 participants, indeed, five participants
were interviewed twice. These participants included 27 from various banking
organizations; all interviews took place either with bank directors or executive
management participants. Targeting these senior level participants was essential to

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The total number of interviews is 44 interviews. These included 34 participants, however, 5 of these
interviews were not incorporated in the analysis because it was discovered from the interviews that the
participants do not know what corporate governance is? So 34+5 bad+5 interviewed twice = 44
interviews.

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acquire useful information from those who are in direct contact with corporate governance issues. During the course of the study the need to interview other participants outside banking organizations was deemed essential, as such 7 participants from sites such as the CBE, the Egyptian Banking institute, International auditing firms and the Egyptian stock market were approached. All participants had long experience in the EBS in their respective positions, their experience ranged from a minimum of 17 years of experience to 40 years. Appendix 4 shows the participants for every type of banks as well as other research sites included in this study, while appendix 3 shows banks included in this study.

All participants did not permit recording of the interview, but agreed that the researcher could take notes during all interviews.

Interviews durations ranged from 1.5 to 2.5 hours per interview. The interviews were carried out during the period from August 2008 till July 2009.

Confidentiality was a fundamental issue for those participants to give their consent to participate in the research. This was carefully watched and respected and the approach letter guaranteed the anonymity of both their names and their corresponding banking organizations affiliations.

All interviews questions were formulated in English language and checked for clarity by two academics in the UK who are experts in corporate governance. However, to accommodate for gaining rich data all questions were translated into Arabic and checked by two bilingual academics in Egypt who are also experts in corporate governance.

25 interviews were fully transcribed, the decision not to transcribe the rest of interviews was based on the fact that they occurred towards the end and almost the entire aspects

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52 This classification is based on the result of open coding that identified four types of banks based on their ownership type (Foreign, Arab, Private domestic, state) further details on this classification can be found in chapter five.
raised during these interviews were raised before with other participants. As such the reference used for analysis was the comprehensive notes taken during the interviews. As a quality measure all interviews notes were reviewed at the end of each interview to make sure nothing significant had been left out or misunderstood. This occurred by reading the main points in the notes to the interviewee and making sure they reflected his/her own opinion.

Beside the formal interviews discussed above, informal interviews were also used to collect data from various participants from the EBS. This occurred as casual conversations during meetings with ex-colleagues with whom the researcher had worked together during his training in various banks in Egypt as well as during events attended by the researcher such as the “corporate governance in the EBS seminar” held in Egypt where the researcher met the top speakers about corporate governance in Egypt.

4.3.4 Semi-Structured Interviews (B)

Semi-structured interviews (B) were employed again at the stage of selective coding, when discriminate sampling was in process. These interviews were based on the main categories and their interrelationships identified at the stage of axial coding. As such the interviews included 8 statements set on a Likert scale of (1-5) with 1 corresponding to strong disagreement and 5 denoting strong agreement. At this stage the objective was to identify the core category, confirm the significance or lack of significance of the main categories emerging from the preceding coding and data collection procedures as well as verifying their interrelationships with the core category. The 34 participants interviewed earlier during the semi-structured interviews (A) stage were approached again for participating in this interviews round. Gaining their consent to participate again was a challenge; as such 14 of them agreed to participate in this round of the semi-structured interviews (B). Who stated their opinion regarding the statements based
on axial coding in addition to discussing additional related aspects. Indeed, this was the reason for selecting semi-structured interviews at this stage to gain rich data. It must be noted that discussions contributed to identification of the properties and dimensions of the core category. While the participants’ opinions regarding the statements contributed to verifying the relationships between the core category and other sub-categories. During the interviews notes were taken, and further analysis occurred directly from the field notes. Responses to the statements were analysed using frequency tables to evaluate the extent of agreement on the stated relationships. This is fully discussed in chapter seven: selective coding and substantive Theory. Figure 4.1 shows the data collection scheme and its relation with various stages of sampling as discussed earlier in this chapter.

Figure 4.1 Summarizes the Data Collection Scheme

**Survey:** A survey of the quality of corporate governance practices at banks allows access to data and important areas identification and facilitates questions formulation at the semi-structured interviews (A).

**Semi-Structured interviews (A):** A total of 44 Interviews with 27 Board director and executive manager from various banks operating in Egypt; In addition to another 7 interviews with governmental officials, CBE officials and auditors. These interviews were fundamental to open and axial coding stages. *Open sampling, relational sampling and variational sampling, discriminate sampling.*

**Semi-Structured Interviews (B):** 14 semi-structured interviews were carried out with participants from the first round of semi-structured interviews (A). Participants were asked to give their opinion regarding propositions related to relationships verification and identification of the core category. *Discriminate sampling*
4.4 Theoretical Coding

Strauss and Corbin (1990b; 1998) advocated that grounded theory analysis encompasses three types of coding: Open, axial and selective coding. Open coding refers to "the analytic process through which concepts are identified and their properties and dimensions are discovered in data" (Strauss and Corbin, 1998:101). Axial coding refers to "The process of relating categories to their subcategories, termed "axial" because coding occurs around the axis of a category, linking categories at the level of properties and dimensions" (ibid:123). While, selective coding refers to "The process of integrating and refining the theory" (ibid: 143). Howell (2003a) indicates that these three types of coding are referred to as "Theoretical coding" which is related to the theoretical sampling techniques discussed above and it is the basis of conducting grounded theory (Howell, 2003a).

In this thesis open coding included data collection using semi-structured interviews (A) with bank directors and executives, government officials and other professionals. This was informed by data collected using a survey about corporate governance practices of banks within the EBS, which was carried out with the objective to open-up data and identify important areas of questioning. Thus the survey enlightened subsequent data collection. Through semi-structured interviews (A), open categories were identified and enriched through simultaneous data collection and analysis. This has allowed the emergence of nine open⁵⁵ categories whose properties and dimensions were identified. As open coding main purpose was to develop categories in terms of their properties and dimensions, axial coding aimed to reassemble the data fractured in open coding and focuses on relating the open categories and arranges them to form a coherent overall system (Howell, 2000). Open and axial coding occurred both concurrently and

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⁵⁵ Discussed in details in Chapter five
sequentially, they proceeded together, as such sampling through the semi-structured interviews (A) contributed to both stages. In axial coding the nine open categories were subsumed into five main categories. Axial coding focus was to identify a phenomenon that can explain "what is going on?" (Strauss and Corbin, 1998: 125). As such the five abovementioned main categories were related by the means of the paradigm model (Strauss and Corbin, 1990b; 1998). Indeed, axial coding focus was to link process with structure to capture as far as possible complexities of the real life (Strauss and Corbin, 1998). This has provided the basis of selective coding.

As the final coding stage, selective coding aimed to select the core category and validate its relationship with other subcategories to form "a larger theoretical scheme that the research findings take the form of theory" (Strauss and Corbin, 1998: 143). As such on the basis of patterns lied down during axial coding, selective coding has identified the core category and verified its relationship with subcategories by utilizing the paradigm model again. Initially, sampling was variational and relational during open and axial coding; however, during selective coding it became discriminate. This allows identifying those to be interviewed, leading to utilizing a second round of semi-structured interviews (B) with participants from various bank types and the CBE. Selective coding identified the core category in terms of its properties and dimensions as well as verified the relationships between the core category and subcategories led to the formulation of the substantive theory of BCG.

4.5 Analysis of Survey Statements

The first data collection method utilized in this thesis is a survey of corporate governance practices quality. The survey is composed of 11 statements addressing the most significant corporate governance issues related to corporate governance practices of the EBS as previously mentioned in this chapter.

54 Discussed in details in Chapter six
55 Statement number two includes four sub-points.
The survey asks participants to express the extent to which their respective banks observe or implement each corporate governance issue. The survey was distributed to the whole population of banks (30 banks), of which participants from 21 banks completed and returned the survey; as such the completion rate was 70%. As previously stated those who filled the survey were banks' executive management or directors.

The survey questions were based on a likert scale of (1) to (5). The choice (1) denotes that the bank does not consider the corporate governance issue at all, while the choice (5) denotes that the corporate governance issue is observed and implemented to the greatest extent.

The survey was analyzed through constructing frequency tables at the level of each statement to determine the answers distribution amongst the 21 banks. The output of this analysis and the associated chart are shown in Figure 4.2. For each statement the percentage of various responses is shown in the table and depicted on the figure.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Not at all</th>
<th>Little extent</th>
<th>Materially</th>
<th>Great extent</th>
<th>Greatest extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders</td>
<td>0%</td>
<td>0%</td>
<td>14%</td>
<td>24%</td>
<td>5%</td>
</tr>
<tr>
<td>Depositors</td>
<td>0%</td>
<td>0%</td>
<td>38%</td>
<td>38%</td>
<td>10%</td>
</tr>
<tr>
<td>Employees</td>
<td>0%</td>
<td>35%</td>
<td>24%</td>
<td>29%</td>
<td>38%</td>
</tr>
<tr>
<td>L.Society</td>
<td>0%</td>
<td>0%</td>
<td>10%</td>
<td>33%</td>
<td>57%</td>
</tr>
<tr>
<td>Environ</td>
<td>5%</td>
<td>57%</td>
<td>57%</td>
<td>38%</td>
<td>0%</td>
</tr>
<tr>
<td>Board role</td>
<td>0%</td>
<td>0%</td>
<td>38%</td>
<td>57%</td>
<td>38%</td>
</tr>
<tr>
<td>Training</td>
<td>0%</td>
<td>0%</td>
<td>38%</td>
<td>57%</td>
<td>38%</td>
</tr>
<tr>
<td>Self evaluation</td>
<td>0%</td>
<td>0%</td>
<td>38%</td>
<td>57%</td>
<td>38%</td>
</tr>
<tr>
<td>Sep. chair &amp; CEO</td>
<td>0%</td>
<td>0%</td>
<td>38%</td>
<td>57%</td>
<td>38%</td>
</tr>
<tr>
<td>Comittees</td>
<td>0%</td>
<td>0%</td>
<td>38%</td>
<td>57%</td>
<td>38%</td>
</tr>
<tr>
<td>Security</td>
<td>0%</td>
<td>0%</td>
<td>38%</td>
<td>57%</td>
<td>38%</td>
</tr>
<tr>
<td>Annual report</td>
<td>0%</td>
<td>0%</td>
<td>38%</td>
<td>57%</td>
<td>38%</td>
</tr>
<tr>
<td>Co. role in credit rating</td>
<td>0%</td>
<td>0%</td>
<td>38%</td>
<td>57%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Figure 4.2. Summary of the Survey Results and the Frequency of Participants' Responses to Each Statement

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56 Frequency tables were generated using Microsoft Excel software.
The main purpose of the survey was to open the data and aid in formulating questions of the semi-structured interviews (A) carried out in the subsequent stage of data collection, as well as gaining an overall understanding of the current corporate governance practices quality at the level of individual banks.

To facilitate analyzing the survey results and determine important areas of further inquiry, statements were grouped into three broad groups as shown in table 4.1 namely:

- Stakeholders' Interests.
- Board of Directors Corporate Governance Practices.
- Communication of Corporate Governance Information to Stakeholders.

The analysis of the responses to each statement under each of the above mentioned groups can be discussed in the following sections.

4.5.1 Stakeholders interests

Statement 1: The bank's current structures serve the interests of shareholders.

57% of the respondents stated that their respective bank's corporate governance structures serve the interests of the shareholders to the greatest extent, with 29% stating that shareholders interests are served to a great extent, while 14% of the respondents stated that they are materially served as shown in figure 4.2.

This indicates that in general all responding banks' corporate governance structures are directed towards serving their respective shareholders interests.

This matches the corporate governance definition from a banking perspective as indicated by Basel’s Committee definition (2010:5)

From a banking industry perspective, corporate governance involves the manner in which the business and affairs of a bank are governed by its board and senior management, including how they meet shareholders obligations (BCBS, 2010:5)

57 For the purposes of giving a clear and more objective indicators the Likert scale answers can be converted to two way (Yes / No). Here the materially extent, great extent and greatest extent choices are considered equivalent to the answer (Yes), while not at all and little extent choices are equivalent to the answer (No).
Obviously, the EBS definition of banks' corporate governance is also based on the Basel committee definition (EBI, 2006:1).

Table 4.1 Grouping of Survey Statements for Analytical Purposes

<table>
<thead>
<tr>
<th>Group</th>
<th>Related Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholders' Interests</td>
<td>1. The bank's current corporate governance structures serve the interests of shareholders.</td>
</tr>
<tr>
<td></td>
<td>2. The bank's current corporate governance structures serve the interests of the following non-share owning stakeholders.</td>
</tr>
<tr>
<td></td>
<td>a. Depositors</td>
</tr>
<tr>
<td></td>
<td>b. Employees</td>
</tr>
<tr>
<td></td>
<td>c. Local society</td>
</tr>
<tr>
<td></td>
<td>d. The Environment</td>
</tr>
<tr>
<td>Board of Directors corporate governance practices</td>
<td>3. The bank's board functions include oversight and approval of corporate governance practices.</td>
</tr>
<tr>
<td></td>
<td>4. The bank's key executives and board members regularly attend training courses on issues of corporate governance.</td>
</tr>
<tr>
<td></td>
<td>5. The board of directors conducts self evaluation or reviews of its effectiveness.</td>
</tr>
<tr>
<td></td>
<td>6. The bank's chairman is independent of the CEO.</td>
</tr>
<tr>
<td></td>
<td>7. The bank utilized specialized board committees in relation to corporate governance e.g. Audit/corporate governance, nomination, remuneration committees etc.</td>
</tr>
<tr>
<td></td>
<td>8. The specialized committees are composed of independent directors.</td>
</tr>
<tr>
<td></td>
<td>9. The bank's overall risk strategy requires the evaluation of the clients' corporate governance quality.</td>
</tr>
<tr>
<td>Communication of Corporate Governance Information to Stakeholders</td>
<td>10. The bank's corporate governance structures are disclosed in the annual report along with latest financial results.</td>
</tr>
<tr>
<td></td>
<td>11. The bank publishes corporate governance information and announcements on its website.</td>
</tr>
</tbody>
</table>

It should be noted that the high ownership concentration ratios prevailing in the responding banks empower the shareholders with more dominance over boards and senior management thus affecting the overall strategies of the bank including corporate governance structures that serve their interests. Table 4.2 shows the ownership percentages of the top three shareholders at each of the responding banks. It can be observed that in 15 of the 21 banks the top three shareholders own more than 90% of bank's capital.
Table 4.2 The Ownership Percentage of the Top Three Shareholders in the Responding Banks

<table>
<thead>
<tr>
<th>Serial</th>
<th>Bank</th>
<th>Ownership Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>THE UNITED BANK</td>
<td>100%</td>
</tr>
<tr>
<td>2</td>
<td>BLOM BANK</td>
<td>99.3 %</td>
</tr>
<tr>
<td>3</td>
<td>CREDIT AGRICOLE</td>
<td>93%</td>
</tr>
<tr>
<td>4</td>
<td>BANK OF ALEXANDRIA</td>
<td>100%</td>
</tr>
<tr>
<td>5</td>
<td>AUDI BANK</td>
<td>100%</td>
</tr>
<tr>
<td>6</td>
<td>ARAB AFRICAN</td>
<td>98.5%</td>
</tr>
<tr>
<td>7</td>
<td>CIB</td>
<td>49%</td>
</tr>
<tr>
<td>8</td>
<td>NSGB</td>
<td>78%</td>
</tr>
<tr>
<td>9</td>
<td>FAISAL ISLAMIC</td>
<td>52%</td>
</tr>
<tr>
<td>10</td>
<td>BARCLAYS</td>
<td>100%</td>
</tr>
<tr>
<td>11</td>
<td>NATIONAL BANK OF EGYPT</td>
<td>100%</td>
</tr>
<tr>
<td>12</td>
<td>BANQUE DU CAIRE</td>
<td>100%</td>
</tr>
<tr>
<td>13</td>
<td>BANQUE MISR</td>
<td>100%</td>
</tr>
<tr>
<td>14</td>
<td>MISR IRAN DEVELOPMENT BANK</td>
<td>100%</td>
</tr>
<tr>
<td>15</td>
<td>HSBC</td>
<td>100%</td>
</tr>
<tr>
<td>16</td>
<td>BNP-PARIBAS</td>
<td>95.19%</td>
</tr>
<tr>
<td>17</td>
<td>SUEZ CANAL BANK</td>
<td>72%</td>
</tr>
<tr>
<td>18</td>
<td>PIRAEUS BANK – EGYPT</td>
<td>94%</td>
</tr>
<tr>
<td>19</td>
<td>AHLI UNITED BANK – EGYPT</td>
<td>73%</td>
</tr>
<tr>
<td>20</td>
<td>EGYPTIAN SAUDI FINANCE BANK</td>
<td>83%</td>
</tr>
<tr>
<td>21</td>
<td>AL WATANY BANK OF EGYPT</td>
<td>100%</td>
</tr>
</tbody>
</table>

Based on Bankscope (2009)

Statement 2: The banks’ current corporate governance structures serve the interests of the following non-share owning stakeholders.

I. Depositors: Figure (4.2) shows that in 38% of the cases, bank’s corporate governance structures serve the interests of depositors to a great extent, while the other 62% of the banks serve depositors interests to the greatest extent. Stated in (Yes/No) format 100% of the responding banks serve the depositors interests.

In fact, banks do not have a choice but to serve depositors interests as an overall business strategy because depositors are the main source of banking organization’s funds, the CBE has clearly initiated the EBS reform program to protect depositors’ interests. In this respect the CBE has considered improving corporate governance practices in banks as a top priority, given the 1990s failures and the subsequent NPL crisis (CBE, 2008a). Here the CBE has “exercised its rights to protect depositors’ interests and introduced changes in management of some private and joint venture
banks” (CBE 2003:4). Therefore, the CBE itself has seen improving corporate governance as a tool of better serving and protecting the depositors’ interests. As such banks cannot overlook serving depositors’ interests due to their position as a source of funds as well as to regulatory reason (CBE stresses on depositor’s interests).

Finally, Basel committee’s definition of corporate governance clearly stated that corporate governance should “protect the interests of depositors” (BCBS, 2010: 5). Again the EBS accepts this definition and considers that depositors’ interests must be served by corporate governance structures (EBI, 2006).

II. Employees, Local society and Environment

Employees, local society, environment can be grouped further into one group as other stakeholders. Grouping these stakeholders is based on that the response of banks regarding the extent to which corporate governance structures serves them is relatively similar, and more skewed to the no side.

The results shown in Figure 4.2 indicate that 33% of the banks tend to serve employees’ interests materially, while 24% in the case of local society and 29% in the case of environment. Also 24% of banks serve employees interests to a great extent, 14% of banks serve local society to a great extent. Finally, 5% of banks serve employees interests to the greatest extent and 10% in the case of both local society and environment.

In other words, few banks serve the interests of these stakeholders to the greatest extent. This indicates that the interests of these stakeholders are subordinated to the interests of other stakeholders namely shareholders and depositors. One would argue that these stakeholders’ interests are still important to banks but serving them is not mandatory as the case of shareholders and depositors.
Simply, shareholders and depositors have significant power over boards and management, making their interests as top priority that cannot be overlooked.

**4.5.2 Board of Directors Corporate Governance Practices**

*Statement 3: The Bank's board functions include oversight and approval of corporate governance practices.*

The board of directors has a vital role in banking organizations. This role is vital because if the board is effectively involved in various strategic aspects of the bank including its governance; it is more likely that the bank will be safer. It will also better serve its shareholders and other recognized stakeholders such as depositors. Basel committee not only confirms this argument but consider that it is the board's overall responsibility to “approving and overseeing the implementation of .... corporate governance” *(BCBS, 2010:7).*

According to the survey results shown in figure 4.2, the majority of banks have their boards involved in approval and oversight of the bank corporate governance practices. 24% of the banks' boards are engaged in corporate governance to the greatest extent, 24% to a great extent and the 38% materially engaged. Although these results would suggest that most of the boards are engaged in overseeing their respective banks governance, it also shows the variability between banks in terms of the extent of this engagement. Moreover, 5% of banks’ boards are not engaged in corporate governance. As such one could identify board role in corporate governance and the effectiveness of this role as an important aspect that needs further investigation.

Indeed, the effectiveness of the board role in corporate governance is not only stressed by Basel committee guidelines *(BCBS, 2005; 2010)* but also the latest global financial crisis has demonstrated that the insufficient “oversight or control” by financial institutions boards has led to corporate governance failures and consequently contributed to the crisis *(De Larosiere et al, 2009: 10).* Moreover, a survey undertaken
within Middle East and North Africa by the IFC\textsuperscript{58} (2008) has also indicated that "bank director do not always follow ... best practices" (ibid:64) in relation to the functions that bank board's approve and oversee; including credit operations, credit policy, regulatory compliance etc. (IFC, 2008).

Statement 4: The Bank's key executives and board members regularly attend training courses on issues of corporate governance.

Board members and senior executive managers are responsible for designing and changing a bank's corporate governance structure. Indeed it is the board's responsibility to oversee executive management to assure the sound implementation of corporate governance strategies. Essentially, board members should be competent in relation to corporate governance to have the ability of setting appropriate strategies and carry-out their responsibilities. Similarly executive managers should also be competent in order to implement corporate governance strategies.

In this regard the BCBS guidelines (2005; 2010) stress on the importance of training to enhance competence especially at the board of director's level "Board members should be and remain qualified, including through training, for their positions they should have a clear understanding of their role in corporate governance" (BCBS, 2010:9). Also the global financial crisis demonstrated that the lack of competence and knowledge by executive managers and board members of financial institutions had contributed to corporate governance failures (De Larosie're \textit{et al}, 2009: 10).

Here the survey results have indicated that in 57% of the banks key executives and board members do not receive corporate governance training at all, while in 24% of the banks, they receive it to a little extent, with only 19% of the bank directors receive training to a material extent. As such, this means that in 81% of banks they do not receive proper corporate governance training. This highlights a serious weakness area in

\textsuperscript{58} A corporate governance survey of listed companies and banks across Middle East and North Africa. This survey was commissioned by the IFC and HAWKAMAH Institute (Dubai)
the overall corporate governance system in Egyptian banks, given that incompetent directors and executives cannot effectively set and implement proper corporate governance strategies.

These results agree with the IFC (2008) survey results that stated that although most of bank managers and directors in the Middle East and North Africa are aware of the BCBS guidelines, they lack the proper understanding essential to its implementation. Finally, this agrees as well with the EBI survey (2006) that indicated that “more effort needs to be geared towards designing and implementing special training programs on corporate governance and internal control practices” (EBI, 2006:4)

Statement 5: The board of directors conducts self-evaluation or reviews of its effectiveness in relation to corporate governance.

Given the vital role the board should have in corporate governance of the bank as previously discussed, it is necessary that every board become engaged in self-review of its effectiveness in supporting sound corporate governance practices. Obviously, this is important given the dynamic business environment that is changing at a great pace introducing new challenges to the banking industry.

Banking failures related to weak corporate governance such as the Asian financial crisis (1999) and the global financial crises (2008) are examples of imbalance that occurs between the systems and practices adopted at one point of time and prevailing challenges. BCBS (2010) guidelines has captured this issue and introduced a board's own practices principle covering the aspect of self-evaluation:

The board should define appropriate governance practices for its own work and have in place the means to ensure such practices are followed and periodically reviewed for improvement ... the board should structure itself in a way ... so as to promote efficiency, sufficiently deep discussion of issues ... To support board performance, it is a good practice for the board to carry out regular assessment of both the board as a whole and of individual board members (BCBS, 2010:10-11).

According to the survey results shown in figure 4.2 the board self-evaluation is not practiced at all in 57% of the banks, to a little extent in 33% of the banks and practiced significantly in 10% of the banks.
So in general one can conclude that 90% of the banks do not review their own practices, one would argue here that this is related to the nature of ownership structure in Egyptian banks, where few block holders (less than 3 shareholders) control the bank in more than 70% of the cases. Indeed, controlling shareholders influences the bank overall activities (BSBC, 2010) including the practices of the board. As long as the shareholders' interests are served as shown by the survey results (statement 1), boards are less likely to review their performance because the main stakeholder that would initiate this practice is already satisfied (shareholders). This result agrees as well with the EBI survey (2006) that identified the practice of “board self assessment” as requiring further enhancement.

Statement 6: The banks chairman is independent of the CEO (Executive management).

The importance of the chair of the board is derived from the importance of the board of directors. The chairperson should provide leadership as to the whole board. Most importantly, and as encouraged by BCBS (2010), the chairperson should allow and encourage critical discussions in the best interest of the bank. Moreover, it is a trend now amongst banks to separate the two positions of the chair and the CEO. In case, the same person plays the two roles, a bank should have good reasons to this duality or to have particular measures that would minimize any negative impact of duality (ibid).

Here the result of the survey indicated that 43% of the banks consider the chairperson independent of the CEO to a great extent, while 14% consider the chairperson to be materially independent. So, in aggregate 57% of banks consider their chair to be independent of the CEO, while 43% do not have this independence. Because independence of the chair is perceived as affecting the independence of the whole board. Lorsh and Maciever (1989 cited in Baliga et al, 1996) argued that this case would “reduce the possibility that the board can properly execute its oversight and governance role” (P.42) which can endanger the long-term success of the organization.
But here the interpretation would not rely too much on this aspect. As in the light of the previous statements, it has been clear that the engagement of the board in governance matter, competence of the board members and the board corporate governance practices are questionable and require reform in order to meet the international benchmark. So, the survey results of this statement would complement the above mentioned measures that a corporate governance reform especially in what is related to the board of directors’ practices is required.

Statement 7: The bank utilities specialized committees in relation to corporate governance.
Statement 8: The specialized committees are composed of independent directors.

Having Board committees are one of the good practices that should enhance corporate governance at banking organizations as indicated by the BCBS (2010). Here the BCBS (2010) argue that utilizing board committees “increase efficiency and allow deeper focus in specific areas” (P.11). These committees should include an audit committee to undertake the following responsibilities:

- financial reporting process; providing oversight of the bank internal and external auditors; ...
- ensuring that senior management ..... is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations and other problems identified by auditors. In addition, the audit committee should oversee the establishment of accounting policies by the bank (ibid: 12).

Additionally specialized committees should include a compensation committee that design and oversee the bank compensation system, ensures that compensation is matching the “banks culture, long terms business and risk strategies performance and control environment, as well as with local or mandatory requirement” (ibid: 12).

Moreover, a bank should have nomination- and governance committees; these committees would be involved in giving the board recommendations regarding new board members and senior management selection. Additional scope of work of these committees can include oversight and assessment of the board of directors and senior management effectiveness as well as oversight on the bank’s personal and human resources policies (ibid).
Finally, BCBS (2010) guidelines recommend that the board should form these specialized committees through appointment of competent, experienced and independent members. To be able to understand and "objectively evaluate and bring fresh thinking to the relevant issues" (ibid: 13).

According to the survey results 62% have specialized committees to a little extent, while 14% have specialized committees to a significant extent, 19% of the banks have indicated that they have specialized committees to a great extent and finally 5% have indicated that they have these committees to the greatest extent as shown in figure 4.2. However, it must be noted that the high percentage of banks that selected the "little extent" choice is based on the legal requirement that all banks must have an audit committee (Law No.88, 2003).

The results of the survey regarding the utilization of specialized committee, indicates that banks have different preferences towards forming specialized committees, indeed, this contributes to having varying levels of corporate governance quality in banks. However, all banks do comply with legal requirements. At least all banks have an audit committee as required by law. This reflects that a rule based corporate governance requirements may bring about more compliance in the EBS.

On the other hand the survey results also show that banks' specialized committees are not composed totally of independent directors in 38% of the cases. While 43% of banks have their specialized committees composed of independent directors to a little extent. Still 10% of banks appoint independent directors for these committees to a significant extent. Moreover, 5% of banks appoint independent directors to a great extent. Finally, only 5% of banks compose their specialized committees wholly of independent directors to the greatest extent.

Evaluating the two statements together (statements 7 and 8), one would argue that the EBS needs to pay attention to board specialized committees to increase the effectiveness
of the board of directors role in the banks' corporate governance. Similarly, banks need to compose these committees of more independent directors to enhance the objectivity of these committees.

Statement 9: The banks overall risk strategy requires the evaluation of the client's corporate governance quality.

It is the ultimate responsibility of the board to oversee and approve the risk strategy of the bank including "overall risk strategy, including its risk tolerance; risk policy, risk management" (BCBS, 2010:7).

As such screening of borrowers' corporate governance quality based on the comprehensive concept of corporate governance is a necessity. Here Azab (2007) indicates the importance of assessing corporate governance of borrowing companies due to its importance in evaluating their non-financial risks. Such as operational, reputational, environmental and compliance risks of the company and above all the borrowing company's board of directors practices. He adds that including corporate governance assessment to credit decisions would tell a great deal about the ability of the company to pay back the loan (ibid).

According to the survey results 14% of the banks do not assess clients' corporate governance at all, 67% assess it to a little extent, 10% to a significant extent, 5% to a great extent and finally 5% of the banks do assess their client's corporate governance to the greatest extent. This reflects that the majority of banks do not assess their clients' corporate governance.

Indeed, this shows another defect in the current board of director's corporate governance practices within the EBS. Obviously, this result agrees with the EBI survey results (2006) "Which revealed that the role banks play in external monitoring of client is quite limited. Little monitoring and emphasis is placed on clients' adherence to good corporate governance practices, specifically as related to monitoring borrowers" (P. 26).
In fact, the assessment of clients’ corporate governance is of special importance not only for the safety and soundness of the banking system and better protection of shareholders and depositors per se. But also for the promotion of corporate governance amongst different sectors of the economy, given that Egyptian economy is bank-based. Notably, the ECOCG (2005) has clearly indicated that

Moreover, banks... should take the articles listed in the code into consideration when doing business with or evaluating corporations to determine the extent to which the provisions and content of these rules are upheld. It should be expected that all those in charge of managing ... financial institutions... implement and promote the provisions of this code; they should be expected to consider the implementation of these provisions an indicator of success (ECOCG, 2005:4).

In conclusion, the survey analysis in relation to board of directors' corporate governance practices indicates that the board of directors role in corporate governance is limited given the board members' inadequate level of corporate governance competence, self evaluation and limited utilization of independent board committees. Indeed the absence of clients' corporate governance evaluation is quite normal given the above mentioned constraints. As it is less likely that boards with the above mentioned corporate governance characteristics would promote corporate governance amongst clients. However, if the separation of chairmanship and CEO positions would indicate independence, The EBS would be in a good position. However, it can hardly be assured given the current corporate governance practices at the boards’ level as indicated.

4.5.3 Communication of Corporate Governance Information to Stakeholders

Statement 10: The bank's corporate governance structures are disclosed in the annual report along with latest financial results.

Statement 11: The bank publishes corporate governance information and announcements on its website.

Conducting corporate governance properly is not only a matter of complying with relevant national codes or international benchmarks but a matter of doing so transparently. Because “it is difficult for shareholders, other stakeholders and market participants to effectively monitor and properly hold accountable the board of directors
and senior management when there is a lack of transparency” (BCBS, 2005: 15). Obviously, transparency gives various stakeholders the ability to judge how efficient and effective are the board of directors and senior management in governing the bank. Indeed this enables an informed judgment on the safety and soundness of these banks (ibid).

BCBS (2005) has recommended that banking organizations should provide timely and accurate disclosures on the bank’s website and its annual reporting covering a number of areas namely: Board structure, basic organizational structure information about the incentive structure of the bank and the bank’s code or policy of business conduct (ibid: 15). However, in the latest edition of the BCBS (2010), the committee has widened the scope of disclosures to match not only the above mentioned scope advised in BCBS (2005) but to include more areas as indicated by the OECD (2004) principles of corporate governance. Here the OECD (2004) indicates in its “Disclosure and Transparency” section. The organization should disclose, but not limited to material information on

- the financial and operating results of the company; company objectives; Major share ownership and voting rights; remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board; related party transactions, foreseeable risk factors; issues regarding employees and other stakeholders; governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented (OECD, 2004: 22).

According to the survey results 10% of the banks do not publish any corporate governance information in their annual report, 24% publish this information to a little extent, and also 24% publish corporate governance information to a material extent, while 38% of the banks publish corporate governance information to a great extent. Finally 5% only publish corporate governance information to the greatest extent. On the other hand, 5% of the banks do not publish any corporate governance information or announcements through their website, 38% publish information to a little extent, while 59 The reason is that BCBS (2010) has been issued post the global financial crisis, as such it is more conservative and been addressing aspects that mostly contributed to the crisis.
38% publish significant corporate governance information on their websites. Finally, 19% of the banks publish corporate governance information on their website to a great extent.

Based on the above results, one would argue that transparency and disclosure of corporate governance information is not a common practice amongst the majority of the banks. In fact, transparency is a prerequisite of accountability (BCBS, 2005; 2010). Moreover, lack of transparency or opaqueness can at least indicate that banks do not have proper corporate governance structures and practices in place. Also, it may even indicate malpractices.

4.5.4 Comparison of Survey Results of Private V. State Owned Banks

According to the CBE list of banks, two types of banks exist within the EBS: private and state-owned banks. To gain better understanding of the survey results and better inform the next stage of data collection (Semi-structured interviews A), this section compares the results of the survey between the two types of banks. This is deemed important due to two reasons. First, the BCBS (2005, 2010) guides indicate that state ownership of banks "has the potential to alter the strategies and objectives of the bank" (BCBS, 2010: 6). Second, it is already well established, that state-owned banks in Egypt do have inferior corporate governance quality compared to private banks. They are characterized by distorted incentive systems, poor management, weak internal governance, lack of performance incentive, overstaffing and inadequate risk management, in short overall weak corporate governance (Mohieldin and Nasr, 2007).

Given the nature of data collected through the survey, the median as a measure of central tendency can be useful in showing the central tendency\textsuperscript{60} of private banks to select a particular answer to each statement compared with the choice of state-owned banks. Thus higher median reflects better corporate governance from the particular

\textsuperscript{60} Small population of banks (30 banks), and a response ratio of 21 banks. The survey is based on ordinal data
aspect raised by the statement. Figure 4.3 indicates that median for the degree of serving shareholders, depositors, employees and environment, the board role in corporate governance, corporate governance training, and chairperson independence, website and annual report disclosure are higher in the case of private banks. While, the median was the same in case of the degree of serving local society, utilization of specialized committees and assessment of borrowers. Finally, in terms of the boards' self-evaluation state banks show higher median.

Although, this analysis does not tell much about the reasons of differences, indeed, it indicates that the ownership type have something to do with corporate governance quality of banks. As such given the objective of this survey to inform the semi-structured interviews (A), this would be a useful hunch to follow and investigate in more details in next stage of data collection.

Figure 4.3 Comparison of the median of survey results according to ownership of the bank (Private V. State banks).

The mode as a measure of central tendency for ordinal data was considered, but because of huge difference in number of state banks (4) compared to (17) private banks and the existence of multiple modes, the median is more meaningful.
4.5.5 Concluding Remarks of the Survey Analysis

This section has provided a detailed analysis of the corporate governance practices quality at various banks within the EBS, as expressed by banks' top management or banks' directors. Corporate governance at any bank is the ultimate responsibility of the board of directors and senior management responsible for implementing corporate governance strategies set by the board (BCBS, 2010).

The survey has focused on areas of significant importance, related to three groups: Stakeholders' interests, Board of directors' corporate governance practices and Communication of corporate governance issues to stakeholders. Analysis of the responses to the 11 statements of survey has been carried-out by developing a frequency table and a bar chart in order to arrive at the overall quality of corporate governance in banks of the EBS. However, it must be noted that the survey's main objective is to identify areas of significance that are carried forward to enlighten the next stage of data-collection (semi-structured interviews A).

It can be seen from tables 4.1 and 4.2 and figures 4.2 and 4.3 that Banks' corporate governance structures do serve the interests of stakeholders especially shareholders and depositors. Obviously, these two groups are the most powerful amongst other stakeholders. High ownership concentration ratios increase the relative power and domination of Shareholders on the board of directors. While, depositors enjoy this position as the CBE does not compromise their interests at any time and has initiated a wide corporate governance reform to enhance their protection. Other stakeholders such as employees, society and environment interests are served but they are subordinated to the interests of shareholders and depositors. Indeed, they are less powerful.

Regarding the second group: board of directors' corporate governance practices, the survey results has shown that the board of directors' role in corporate governance needs reinforcing. Obviously in most of the banks corporate governance quality is not up to
the standard of benchmarks. Also, banks' role of corporate governance promotion amongst bank clients is nearly absent. This indicates another deficiency in the board of directors' role in setting the overall bank risk strategy.

As shown by the survey results, low corporate governance competence indicated by lack of training on corporate governance issues, absence of self-evaluation, limited utilization of independent specialized committees such as nomination, remuneration and corporate governance committees all indicate the limited role of the board in corporate governance issues.

Regarding, the communication of corporate governance information section of the survey have shown that disclosure of banks' corporate governance information through the websites or the annual report is not a common practice, meaning that transparency level is low. As such this indicates that holding board members and senior managers accountable become more difficult. Most importantly, this leads to more complexity in enacting reforms of corporate governance. However, reforms lead by the CBE to protect depositors or lead by shareholders would overcome this barrier but essentially this requires competent and active shareholders and regulator.

Finally, the survey analysis has shown variation of corporate governance practices between the state owned banks and private banks. Indicating a relationship between type of ownership and corporate governance.

The findings of the survey can then be grouped into four areas: shareholders and stakeholders interests, board's role in corporate governance practices, transparency and disclosure and ownership type of the bank. These four areas will be the focus of questions formulation in the next stage of data collection (Semi-Structured Interviews A).
4.6 Conclusion

This chapter aimed to present sampling and research site selection as well as the data collection scheme. Indeed, this thesis follows the logic of theoretical sampling, which seeks obtaining data that are theoretically relevant, as such it assists the researcher to predict where and how to find necessary data to fill gaps and saturate emergent categories (Charmaz, 2006). Regarding research sites, commercial banks were the primary research site for conducting this research, but application of theoretical sampling has guided the researcher to other relevant research sites namely: CBE, auditing firms, the Egyptian stock market, the Egyptian banking institute and the Egyptian institute of directors.

A combination of data collection methods are used to generate the substantive theory of bank corporate governance within the EBS. Firstly, a survey was implemented to assess the BCG practices of banks. This was important to allow access to data and inform questions formulation in the semi-structured interviews (A). The semi-structured interviews (A) with bank directors and executives from various banks and governmental officials and auditors was the basic data collection method employed in this thesis and contributes in open, relational / variational, and discriminate sampling. Finally another round of semi-structured interviews (B) were carried at the stage of selective coding to identify the core category, discover its properties and dimensions and verify its relationship with sub-categories. Indeed, this semi-structured interview (B) is related to discriminate sampling.

The second objective is to provide a detailed analysis of corporate governance practices of various banks based on the survey implemented. This chapter has analysed the survey results. This has been carried out by grouping the 11 likert- scale statements into three groups: Stakeholders' interests, board of directors corporate governance practices and communication of corporate governance issues.
Frequency tables and charts were constructed to clearly compare corporate governance practices of various banks. This has indeed furthered the understanding of the corporate governance within the context the EBS and informed questions formulation in the subsequent semi-structured interview (A). The important issues that the survey has identified as major areas of investigation in the semi-structured interviews (A) are: shareholders and stakeholders' interests, board's role in corporate governance practices, transparency and disclosure and ownership type. The main conclusions of this chapter can be summarized as follows: banks' corporate governance structures do serve the interests of stakeholders' especially shareholders and depositors given the power conferred to the former because of high ownership concentration, while the latter is the backed by the sole regulator of the banking sector. The survey has shown that the board of directors' role in corporate governance needs reinforcing and that competence of directors is highly questioned. Similarly, corporate governance disclosure is limited and as such accountability is difficult. The survey has also shown difference in bank's corporate governance quality based on whether the bank is state-owned or privately owned.

Based on the output of this chapter which contributes in formulation of the semi-structured interviews (A) questions; the next chapter will discuss open coding based on the data collection from the semi-structured interviews (A), towards discovering open categories in terms of their properties and dimensions.
CHAPTER FIVE
Data Analysis of Semi-Structured Interviews (A): Open Coding

5.1 Introduction

This chapter presents open coding based on data collected using semi-structured interviews (A). It is worth noting that the semi-structured interviews (A) target investigation of important areas identified by the survey analysis as shown in the previous chapter. Additionally, interviews target other areas arrived through informal conversations with participants. Based on simultaneous data collection and analysis, open coding has arrived to nine open categories and identified their properties and dimensions.

Open coding can be seen as an “Interpretive process by which data are broken down analytically” (Strauss and Corbin, 1990a:12). The objective of open coding is to break data into concepts by using theoretical coding procedures and constant comparison method. Emerging codes then are tested for theoretical relevance, only concepts that show persistent occurrence in data collected, form open categories. Conceptually similar data that are deemed important to the participants are collected together to form these open categories (Strauss and Corbin, 1990a).

5.2 Semi-structured Interview Questions

The semi-structured interview questions analysed in this chapter aims to explore and understand the nature of the corporate governance phenomenon within the context of the EBS. These questions are enlightened by the survey of BCG practices analysed in the previous chapter. At the same time, questions were also enlightened by informal conversations with bank directors and executives in many occasions including when

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62 The survey analysis outlined in chapter 4 has led to the development of four significant areas: shareholders' and stakeholders' interests, Boards' role in corporate governance practices, transparency and disclosure, bank ownership type. Which enlighten questions formulation at semi-structured interviews (A).
 approached them to ask for the participation in the study. The main aspect in formulating the semi-structured interview questions in this grounded theory study was to provide the research with “flexibility and freedom to explore a phenomenon in depth” (Strauss and Corbin, 1998) to discover as much concepts as possible in relation to the corporate governance phenomenon in the context of the EBS. Indeed, asking questions in the light of the survey analysis and informal conversation facilitated asking more precise questions that are believed to increase the likelihood of discovering relevant concepts.

To utilize the comparative method, all interviewees were asked the same questions. This also contributes to the attempt of objectivity that this research is seeking. Certainly the comparative analysis of the responses for each of these questions had contributed towards the generation of theoretically significant concepts (Strauss and Corbin, 1998) and the development of categories in terms of their properties and dimensions. Finally, during the course of the semi-structured interview process the need to interview other participants in new research sites was discovered. Participants from the CBE, EBI, EIOD, and Egyptian Stock Exchange were approached and interviewed.

The semi-structured interview questions were as follows:

1. To what extent does the bank’s ownership type affects its quality of corporate governance practices? (ownership type of the bank)
2. To what extent do laws and regulations effectively promote bank’s corporate governance? (shareholders and stakeholders interests)
3. To what extent corporate governance affects competitiveness of the bank?
4. What are the mechanisms used by the CBE to enhance bank’s corporate governance practices? (shareholders and stakeholders interests)
5. On what basis a bank considers corporate governance reform? (shareholders and stakeholders interests)
6. What bodies play an important role in bank’s corporate governance? What are these roles?

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63 The relationship between survey areas and questions investigating these respective areas is disclosed in front of each question. However, informal interviews with bank directors and executives had contributed to all questions with varying degrees. A table showing the significant areas arising from survey analysis and related semi-structured interview questions is shown in appendix 5.
7. Whose interests do banks’ corporate governance mechanisms protect? (shareholders and stakeholders interests)

8. What role does the board have in the corporate governance of the bank? To what extent is this role effective? (Boards’ role in corporate governance practices)

9. How the board ensures that board members understand their role in corporate governance? (Boards’ role in corporate governance practices)

10. What are the corporate governance mechanisms that banks utilize? (Boards’ role in corporate governance practices)

11. To what extent the bank insists on good corporate governance in the credit operations? What benchmark the bank uses in this respect? (Boards’ role in corporate governance practices)

12. What impact does the Egyptian business culture have on corporate governance of banks?

13. What is the basis to determine the risk management policy of the bank? (Boards’ role in corporate governance practices)

14. To what extent does the accounting standards adopted enhance transparency? (Transparency and Disclosure)

5.3 Analysis of Semi-Structured Interviews Questions and Developed Open Categories

This section presents open coding based on the analysis of data collected from the semi-structured interviews (A). Indeed, the main output that occurs cumulatively as data collection and data analysis took place was open concepts. According to Strauss and Corbin (1990a) theory cannot be built using raw data, therefore, as soon as data analysis starts, events and incidents that have theoretical significance to the participants are given “conceptual labels” (P.7). As the study progresses these open concepts are transformed to open categories which are a more abstract classification (Strauss and Corbin, 1990a, 199b).

In conducting open coding data collected through semi-structured interviews (A) were the fundamental data used. Interview transcripts were analyzed using the line-by-line approach advocated by Strauss and Corbin (1990a; 1990b; 1998). Firstly, the transcript
was read thoroughly, and then a more in-depth line-by-line analysis took place, trying to find out concepts that correctly capture the meanings as expressed by the participants. The focus was given to discover the properties and dimensions of concepts as perceived by the participants in relation to the phenomenon studied.

The line-by-line analysis was also accompanied by writing theoretical memos and visual representation of the emerging concepts. This included developing a list of emerging concepts and issues that were taken to the next interview. Finally, as coding and data collection progress together, grouping of open concepts took place to form open categories. In doing so and as recommended by Strauss and Corbin (1998) the open category was labelled in a way that logically describes “what is going on?” (P.114).

This section presents the open categories which are the final result of the open coding stage. Each open category is linked to one or more interview question. Open categories presented in the following sections are explained in terms of their properties and dimensions.

5.3.1 Corporate Governance Identity

This open category emerged in relation to the analysis of responses to the following questions:

Q1: To what extent does the bank’s ownership identity affects its quality of corporate governance practices?

Q5: On what basis a bank considers corporate governance reform?

The term identity refers to the questions of who are we? What kind of business are we in? And what do we want to be?” (Albert and Whetten, 1985). It is a self reflection question that refers to the “features that distinguish the organization from others with

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64 Participants here refer to bank directors and executives, Central bank officials, Egyptian Institute of directors’ officials, Egyptian Banking Institute officials, and Egyptian Stock market officials.

65 This was carried out to express the emerging concepts visually, this help to increase the theoretical sensitivity of the researcher.
which it may be compared ... (or) features that exhibit some degree of sameness or continuity overtime” (ibid, author brackets). According to Williamson (1998):

Things are identical if they are one thing, not two. We can refute the claim that they are identical if we can find a property of one that is not simultaneously a property of the other. The concept of identity is fundamental to logic. Without it, counting would be impossible, for we could not distinguish in principle between counting one thing twice and counting two different things...Knowledge of what directions are involves knowledge that parallel lines have identical directions (Williamson, 1998:3841).

In the context of the EBS, the category corporate governance identity reflects what various participants from the banking field refer to when they express their opinion regarding similar corporate governance practices prevailing in a particular group of banks. Indeed, this is based on the four ownership types of banks within the EBS: Foreign, Private, Arab and State. Because “identity has to exist in relation to some other thing” (Howell, 2003b:5) as advocated by Hegel (1971). Corporate governance identity exists in relation to the ownership type. This was clearly asserted by participants from the banking field, the following quotes reflect this:

“Yes, for sure ownership identity affects the quality of corporate governance” (Director, Foreign bank). Similarly an executive manager of a State bank mentioned that “corporate governance quality is related to the ownership type of the bank”. Another executive manager of a Private bank adds “Yes, the bank type does affect the quality of corporate governance”. As such this indicates that the same banking type shares similar corporate governance practices and as such the term corporate governance identity refers to similar corporate governance features shared by a particular banks’ type.

66 Bank directors and executives, Central bank officials, Egyptian Institute of directors’ officials, Egyptian Banking Institute officials, and Egyptian Stock market officials.

67 Foreign banks are banks owned and affiliated to foreign banking organizations; principally there headquarters are located in Western or Asian countries. Similarly, Arab banks are banks owned by banking organizations of headquarters in Arab countries. Private Banks are owned by domestic banking organizations with no affiliation to external banking organizations. Finally, State banks refer to banks owned by state.
To summarize, bank directors and executives from various banks agreed upon four corporate governance identities corresponding to the four bank ownership types (Foreign, Private, Arab, State). This reflects that every ownership type shares common corporate governance features that distinguish it from other types. As such it reflects a particular corporate governance identity.

Here the participants spoke of the Foreign bank corporate governance identity as the best and most committed to high quality corporate governance practices, followed by Private and Arab banks. While, State banks are perceived as the least committed to high quality of corporate governance practices. An executive manager from a State bank admits this reality when he/she says:

*Corporate governance quality is related to the type of the bank, foreign banks have the best corporate governance practices, private banks are okay but to a lesser extent, followed by Arab banks, while we come at the end of the list (Executive, State Bank).*

Another Foreign bank board director agrees to the same categorization of corporate governance identities.

*Ownership identity affects the quality of corporate governance; you will find that the State-owned banks have the least corporate governance quality (Director, Foreign bank).*

Another executive manager from a Private bank confirms the categorization of corporate governance identity based on banks' ownership type as follows:

*The bank type does affect the quality of corporate governance, so if we divide the present structure of the EBS according to the ownership type, you will find that Foreign banks have the best corporate governance practices and State owned banks have the worst practices, while other banks (Arab and Private) come in between (Executive, Private bank).*

The open category corporate governance identity was observed in terms of its conceptual properties of management control, organizational perception of corporate governance and directors' and executives' competence. These properties can be discussed in the following subsections.
I. Management Control

Management control refers to "the means by which the actions of individuals or groups within an organization are constrained to perform certain actions while avoiding other actions" (Encyclopaedia of Management, 2009:510). Management control was observed as a main property of the corporate governance identity category with dimensions ranging from loose to tight management control. Indeed, bank directors and executives from various banks have indicated that tight management control is essential for high quality corporate governance practices.

Bank directors and executives have agreed on the vital role that management control plays in defining the corporate governance identity of the bank. In fact this agrees with the basic definition of corporate governance as "how companies are directed and controlled" (Cadbury report, 1992: Para: 1.9). Thus absence of control indicates that a basic feature of corporate governance is missing. An EBI official stated "Lack of control provides individuals with the chance to behave in unfavourable way".

Participants from the banking field emphasized the importance of management control in defining corporate governance identity, referring to banks with low management control that had collapsed during the late 1990s. Indeed, behind failures was poor corporate governance based on weak management control. This facilitated transgression especially in loan granting function. The following quote shows this meaning:

*Lack of control was a main reason behind the famous banking failures in the 1990s, at these times a loan was granted by a phone call to a bank manager from a high-rank official (CB official).*

Bank directors and executives from various banks commented on their corporate governance systems in terms of management control system. This reflects their own

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68 Here, corporate governance failures were evident in many cases especially in the state-owned banks which dominated the EBS during this period. Obviously, credit was allocated to "privileged and connected private sector not on commercial basis" (Mohieldin and Nasr, 2007:711), many cases of insider lending were reported as board members facilitated loans granting to their friends and network of clients, thus breaching their supposed supervisory and monitoring role on executive management (ibid).
experience from two perspectives: as employees whose behaviour is controlled by management control systems, and as the personnel responsible of running the control system of the bank. For instance a Foreign bank director states:

*Foreign banks have effective corporate governance because these banks know how to put good controls in place. Foreign banks are very serious about corporate governance and control. On the contrary, the reason why state banks have ineffective corporate governance is because they suffer from relaxed control systems* (Director, Foreign bank)

Another important aspect here is the phenomenon of widespread corruption in Egypt. According to the Transparency International Organization, corruption is an incident that occurs when individual with public powers uses these powers for private benefits (2010) [online].

This include... bribery of public officials, kickbacks in public procurement, embezzlement of public funds, and questions that probe the strength and effectiveness of public sector anti-corruption efforts, thereby covering both the administrative and political aspects of corruption (ibid).

Indeed, banking organisations are very sensitive to such activities; this was obvious from the CB official quote mentioned above. Essentially, this reflects a case of government officials abusing their public power exploiting the weak control environment in State banks to commit corruption. According to corruption perception index (2009) Egypt was ranked at the world rank of 111th in terms of freedom from corruption. This index indicates that in Egypt “corruption is widespread, where bribery of low-level civil servants seems to be a part of their daily life and there are allegations of significant corruption among high-level officials” (IOEF, 2009:58).

Bank directors and executives considered that corporate governance identity is highly affected by management control, because in such corrupted environment constraining

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69 This refers to the methods managers and leaders utilize to influence their employees, basically power in this case can be coercive power: “the ability of a manager to force an employee to comply with an order through the threat of punishment” (Encyclopaedia of management, 2009:460). Or reward power, the case in which the manager or the leader will reward the employee for complying with a certain order. Here, the case of state banks, the earlier base of power coupled with weak control, can lead to corruption. Additionally, the latter coupled with weak control can tempt the employee to take a course of action that serves his/her interest like being promoted for instance.

70 The survey includes 180 countries with the rank 1 indicating the best country in terms of freedom from corruption, while rank 180 signifies that the country is the worst country from the same respect.
individuals' behaviour is crucial to have successful corporate governance. The following quote reflects this meaning:

Having effective control system in a bank makes the differences in corporate governance practices of the four banking organizations types. This occurs because banks with relaxed control are not protected from the negative aspects in the business environment, while banks with good controls have higher immunity to these types of infections (Executive, State bank).

This also explains the CBE's emphasis to improve banks' control function by setting it as a primary objective of the banking sector reform. This became obvious following the 1990s bank corporate governance failures related to weak controls especially in State banks. It also explains the reason why newly hired management of State banks consider reforming the control function as a first priority. An EBI official clarifies this "They consider that control system is their eye on the whole bank, as such improving control system was their first move before they sit in their positions" (EBI Official).

II. Bank Directors' and Executives' Competence

Board of directors and executive management of a bank have crucial roles in corporate governance. The board of directors:

is ultimately responsible for the soundness of the bank... Continue to develop and maintain an appropriate level of collective expertise as the bank grows in size and complexity... Select, monitor and, where necessary, replace key executives... Promote bank safety and soundness... Provide sound and objective advice, and recommend sound practices gleaned from other situations... Contribute special expertise in overseeing a bank's activities" (BCBS, 2005:10).

Similarly, the executive management consisting

...of a core group of individuals responsible for the day-to-day management of the bank...contribute a major element of a bank's sound corporate governance by overseeing line managers in specific business areas and activities consistent with policies and procedures set by the bank's board of directors" (BCBS, 2005:12).

Therefore, competence of both board members and the executive management team is essential for effective corporate governance of a bank. Competence\(^1\) refers to "the degree of fit between the ability requirements of a certain task and the corresponding abilities possessed" by the person in charge of this task (Brinckman, 2007:20).

\(^1\) Competence can be seen as the sum of knowledge and skills accumulated during a person's lifetime (Pickett, 1998 cited in Brinckman, 2007:21).
Here, Bank directors, executives and external auditors have agreed upon the important role that competence of board members and management play in the quality of corporate governance. They mentioned that competent board and management will be capable of putting into place proper arrangements whether it is corporate governance related or not. As such, the identity differences and the associated variation in corporate governance practices quality can be explained in terms of the notion of bank directors’ and executives’ competence.

From the due course of his work auditing various banks in Egypt, an auditing firm executive has explained the variation between bank types in terms of board and management competence. This signifies that it is not only corporate governance systems that impact corporate governance quality but also the competence of those responsible of implementing these systems\textsuperscript{72} counts. This is shown by the following quote:

\textit{One reason why Foreign banks come on the top of the list in terms of their corporate governance practices is that the application of systems adopted by their headquarters is carried out here in Egypt by professional and competent management (Executive manager, International auditing firm).}

In fact, executives’ and directors’ competence level is affected by the recruitment practices of the bank. Banks of the same type with similar recruitment practices are likely to attract staff of similar competence level; the following quote clarifies this meaning:

\textit{Foreign banks have high level of corporate governance, one reason is that they employ high calibre employees, in State owned banks they do not have such high standards of corporate governance, people they employ needs much training and education to be able to deal with corporate governance issues. These banks need to change their recruitment policies and their management style in general. Concerning us I think we are following foreign banks and now we are doing much better (Executive manager, Private bank).}

Another Arab bank director mentioned that:

\textit{We have a problem that 90\% of directors and key executives are opportunists, while 10\% are competent and do their job” (Director, Arab bank).}

\textsuperscript{72} Here the auditor was focusing more on executive management, however, board members competence are covered in more details separately under question 8 of the interview analysis.
These quotes would indicate that Foreign banks are characterized by high competent staff\(^7\) followed by Private, Arab and State banks. However, attracting competent employees is not enough for maintaining high level of effectiveness, but training and further development is quite important as well. A Foreign bank director asserted this perspective by stating:

*Employees are offered training courses when they are recruited and as needed during their career with us, to make sure that they understand their jobs' responsibilities and are able to carry them out, this point is important when we speak about corporate governance (Director, Foreign Bank).*

In the context of State and Private Banks corporate governance improvements started with changing the recruitment policies especially in relation with directorship and key executive positions. Indeed, new directors and executives were more competent. This indicates that competence can be a driver towards better corporate governance.

*Corporate governance reform started in state banks by selecting highly competent people who were well trained in American and British banks. Now they are known by name in the EBS, they are on the top of State banks while others hunted by Private Banks (EBI official).*

As such competence of board members and executive managers is one factor that affects the corporate governance identity of a bank, and because banks of the same type (Foreign, Private, Arab, State) share relatively similar recruitment and training policies. This leads to attracting and maintain employees of a particular level of competence that in turn determines how successful a bank is in implementing corporate governance system.

### III. Organizational Perception Of Corporate Governance

Organizational perception refers to the image of an organization (Elsbach, 2006). Here, an image refers to a “*relatively current and temporary perceptions of an organization, held by internal audiences, regarding the fit of an organization with particular distinctiveness categories*” (ibid: 14). Notably, legitimacy is one of the most studied

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\(^7\) Here competence is related to corporate governance responsibilities
forms of organizational images, it refers to "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed systems" (Suchman, 1995:574).

Organizations can achieve pragmatic legitimacy when they are perceived as legitimate because they serve some practical interests, such as increasing shareholders' wealth. Also, organizations can achieve moral legitimacy "because their actions are in line with social norms" (ibid).

Bank directors and executives have identified that achieving a legitimate organizational image is a main reason for adopting corporate governance by various banks. Obviously, banks of the same type of ownership adopts corporate governance to signal a certain organizational image (legitimacy) to a particular group of stakeholders, on such basis the organizational perception of corporate governance is another property of the corporate governance identity. In other words, banks agreed that corporate governance is important to them because it conveys a message to particular stakeholders that they are legitimate.

Thus banks' organizational perception of corporate governance can vary on the basis of the legitimacy type sought. It can be either pragmatic legitimacy or moral legitimacy.

Notably, participants from the banking field have all agreed that corporate governance is not well-known in Egypt "Corporate governance is a new concept in Egypt and its banking sector" (EBI official). This indicates that corporate governance has recently begun to gain attention of professional and academic circles. As for customers or the general public it is not positioned to affect the organizational image of the bank. For them what is more important is that their funds are protected. As such in the case of the EBS the prevailing type of legitimacy is pragmatic rather than moral legitimacy. This can be discussed within the context of every bank type as follows.
Firstly, State banks' directors and executive managers have agreed that their banks consider that adopting corporate governance is a way to show pragmatic legitimacy to the CBE especially that the CBE\textsuperscript{74} has considered "enhancing and monitoring corporate governance of all banks as an objective of the wide EBS reform" (CBE, 2004:3). A state bank executive stated that:

State banks, such as our case, just started to improve corporate governance and use this term in the banking life. This is a part of a wider policy of the CBE to reform the State-owned banks (Executive, State bank).

State banks focus on achieving pragmatic legitimacy as they serve the interests of the CBE by following its directions. While the moral legitimacy here is not applicable as corporate governance as abovementioned is a new issue and does not yet constitute a social norm of appropriateness\textsuperscript{75}. As such state banks are perceived by the public as legitimate and safe regardless of their corporate governance practices. More precisely, if moral legitimacy do exist, we would see that state banks have small market share based on the perception that they are illegitimate, however, the contrary is true and state banks have a relatively large share of the market equivalent to 35% regardless of their poor corporate governance practices. The following quote clarifies this issue:

Although State banks have poor corporate governance quality, they have a market share of about 35% of total deposits. People consider these banks as secured by the government which is not true, there is no legislation that guarantees this backup for any bank. It is just a myth. But this can be understood as corporate governance is new in Egypt and is not well-known to the public. Overtime, corporate governance awareness would be developed. But now it makes no difference for the public if you have high quality corporate governance or not! (Director, Foreign bank).

Secondly, Arab banks' directors and executives have agreed that these banks also seek achieving pragmatic legitimacy. So corporate governance is adopted to serve

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\textsuperscript{74} There is no distinction between the CBE and the Egyptian government, especially that article 24, Chapter 5 of the banking law 88/ 2003 states that "The central bank shall act as a financial advisor and agent for the government". This defies the CBE independence totally.

\textsuperscript{75} Moral Legitimacy is based on normative grounds and focuses on the extent on which organization is judged as doing the "right thing" rather on the extent a given activity that the organization carry-out benefits to the evaluator (Suchman, 1995). So taking into consideration that corporate governance has been introduced to the Egyptian context recently, it is not yet established as a norm or value equivalent to "right thing". As such, it is too early that banking organizations seek achieving moral legitimacy when adopting corporate governance.

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shareholders interests who want to maximize their wealth and indeed this can only happen through compliance with the corporate governance requirements enforced by the CBE.

In our case, the most important aspects is to maximize profits to satisfy the owners and this cannot happen without following the CBE instructions (Executive, Arab bank).

Thirdly, Private banks' directors and executives have seen their banks proactive and keen to increase their expansion potential. Therefore adopting corporate governance is not limited to meet the regulator requirements or meet the shareholder wealth maximization only, but includes adopting corporate governance in a more comprehensive manner, beyond the CBE requirements, thus, signalling to international investors that their investments will be protected.

There is no choice for banks but to adopt CBE corporate governance requirements. But in our case, we strive to have stronger corporate governance structures beyond the CBE requirements. I consider we are successful in this respect because to us, corporate governance is important to protect current and potential shareholders (Executive, Private bank).

So, to private banks, it is also pragmatic legitimacy that drives corporate governance adoption. They seek pragmatic legitimacy towards the CBE as well as current and potential shareholders.

Finally, Foreign banks also adopt corporate governance to achieve pragmatic legitimacy, but in this case the practical interests include their home country owners (headquarters) and indeed the CBE.

Talking about the case of (name omitted), Egypt. The bank has an in-house corporate governance system, applied in all branches world-wide, but with certain aspects customized to some local differences. Here in Egypt we must comply with this corporate governance system. It is a comprehensive system that includes much more than that what is required by the CBE. However, sometime we need to restate how things are done to match the CBE requirements (Director, Foreign bank).

To summarize, the open category corporate governance identity has emerged to signify the existence of features that are shared between banks owned by the similar type of ownership (Foreign, Private, Arab, State). Three properties were observed to
significantly characterize each banking group: Management control, directors’ and Executives’ competence and organizational perception of corporate governance.

5.3.2 Laws and Regulations

This open category has emerged in relation to the following question

Q2: To what extent do laws and regulations effectively promote corporate governance in banks?

This open category refers to laws and regulations governing the banking sector in Egypt. Here regulations refer to those issued by the CBE as the sole regulating authority of the banking industry.

In particular, this category discusses these frameworks and how the participants from the banking field consider them effective in driving banks towards high quality corporate governance. According to Basel committee (2005) governments can play a vital role in promotion of good corporate governance in banks, specifically through “laws, regulations, enforcement” (BCBS: 2005:19).

This category was observed in terms of two properties corporate governance content and enforcement. These properties can be discussed as follows.

I. Corporate governance Content

An effective legal and regulatory framework is essential to promote good corporate governance practices within any banking sector (BCBS, 2005). Here, participants from the banking field have evaluated the current legal and regulatory framework on the basis of its corporate governance content. Most of them have referred to the law of Central Bank, The Banking Sector and Money number 88/2003 as the principal legal document governing the banking sector.

The leading document governing the banking industry in Egypt is the new banking law number 88/2003 and its executive rules. In addition, to the regulations issued by the CBE in the form of board decrees and governor decrees (CB official).
However, with most of the participants focusing only\(^\text{76}\) on the banking law number 88, the particularity of the banking sector is signified. So if a legal framework is to promote corporate governance of the banking sector it should explicitly be issued for the banking sector. Most of the directors and executives from various bank types mentioned the requirement of the law number 88/2003 that banks should have an audit committee as an example of corporate governance regulations. "The unified banking law has some aspects that deal with good corporate governance such as the requirement to create an audit committee in every bank" (Director, Private bank).

Notably, none of the participants have mentioned the ECOCG (2005), which is applicable to the banking sector "It is also applicable to... Banks, insurance companies, and real-estate financing companies" (ECOCG, 2005:5). This indicates that corporate governance regulations that address the banking sector amongst a number of organizations do not have a strong impact, especially if they are voluntary and not endorsed by the CBE, whereas those endorsed or enforced by the CBE are more effective in bringing change.

Reviewing law number 88/2003 and its executive regulation indicates the absence of the term corporate governance from both documents. With few aspects that can be considered corporate governance related such as ownership rules, audit committee formation, the role of auditors in reviewing internal controls of banks. Meanwhile, some new corporate governance related regulations are enacted by the CBE such as the guidelines of evaluation of creditworthiness of customers and the control and supervision manual. However, none of these regulations deal with BCG in a comprehensive manner. An executive manager from a private bank indicates this "Laws

\(^{76}\)Few participants have considered other laws such as commercial laws for instance as influential on the banking sector as well "other laws may be considered as part of the regulatory framework governing banks, improvements in these laws would also affect the corporate governance banks. For example upgrading the commercial laws would affect the regulations regarding checks " (Executive, State bank). But this opinion was not popular amongst various participants.
and regulations touch the concept of corporate governance lightly; corporate governance needs to be dealt with in a more comprehensive manner”. This clarifies that the corporate governance scope within the current banking laws and regulations is quite limited.

On the other hand, a Foreign bank executive states that “The role of the CBE is to set standards that equally applies to all banks, it is the minimum standards, and this is expected due to the variation between banks”. This would indicate that it is less likely that the CBE introduces a compulsory comprehensive corporate governance rules, rather it can be in a more voluntary or comply or explain based regulations. This is meant to accommodate the differences between banks in terms of size and capabilities necessary to adopt comprehensive corporate governance principles.

Still some bank directors and executives see that a corporate governance code is needed to fill the current corporate governance gap in the applicable regulations. Moreover, participants agreed that this code must be endorsed by the CBE

It is essential to have a unified code of corporate governance for the EBS to be applicable on all banks. This code should be issued and backed by the CBE (Director, Foreign bank).

However, opinions conflict even between the participants from the same type of banks (Foreign bank) indicates the sort of problem expected by the CBE if a comprehensive compulsory corporate governance rules are issued. This issue is discussed in more details in the following section.

II. Enforcement

According to Electronic Longman dictionary enforcement refers to the ability to achieve obedience to a rule or a law. Enforcement requires having coercive power that refers to the ability to force someone to comply with an order (law) through the threat of punishment (French and Raven, 2001). Here, enforcement refers to the ability of the CBE to force banks to comply with relevant corporate governance laws and regulations.
Indeed, participants from the banking field spoken of enforcement as an essential property of laws and regulations required to promote good corporate governance within the EBS. The following quote refers to this meaning:

In my opinion laws and regulations play an important role in corporate governance reform of banks, however, this should not be taken for granted because it can be dealt with by what is known as "tick the box" phenomenon. Here enforcement and examination are essential components that bring about compliance with corporate governance (Corporate Governance Expert).

Directors and executive managers from various bank types have clarified the need for a corporate governance code in the EBS. In fact, and as abovementioned, issuing such a code without proper enforcement would not bring about compliance. To these participants enforcement begins with issuing a compulsory code, then supervising implementation. However, participants from the CBE oppose this opinion because they claim that the concept of enforcement is seen differently from the CBE perspective.

I cannot produce a compulsory code, enforced on banks, because this will create many practical problems. This is also against the approach of the central bank, after law 88 has been issued the perception of enforcement has changed towards setting boundaries but keeping flexibility. We are very serious about improving corporate governance within the banking sector (CB official).

This two conflicting points of views regarding issuing a compulsory code of corporate governance for banks, reflects the compromise that the CBE wants to achieve. The CBE seeks enhancing corporate governance quality in banks, as a prerequisite to achieve better protection of depositors, especially that weak corporate governance have caused bank failures previously in Egypt and lead to a major NPL problem (Oldham and Bennadi, 2005).

However, still the CBE faces another pressures from the government to achieve the political agenda as an agent, this includes sustaining the stability of the banking sector. From a CBE point of view this would be affected if they enforced too tight corporate governance measures. So, the CBE tries to achieve the balance between the banking

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77 This is one of the foreign bank executives who worked for an international agency involved in corporate governance reform. But here he / she was speaking about his / her capacity as a corporate governance expert. This participant is counted once.
sector safety and stability. Adopting Basel II in the EBS is a good example that clarifies the CBE approach towards enforcement. One central bank official stated "If we enforce the adoption of Basel II in the EBS, banks will be unable to lend a single pound". This reflects that although, Basel II is quite important to mitigate risks faced by banks, the CBE is reluctant to enforce the accord rigidly because they fear operational problems that may arise. They tend to be realistic as they know that not all banks have the capabilities to apply advanced concepts such as risk management or corporate governance.

In this respect the CBE signed a technical assistance from the European Central bank to prepare the EBS to comply with the Basel II. So, the approach of the CBE is to modernize the bank sector, endorse good practices guidelines but do this gradually after assuring that the CBE itself have the capabilities to support the new concepts. This is essential to avoid collapses or technical problems in the EBS. So on a dimensional range of rigid to flexible enforcement, the CBE favours a flexible approach.

Consistent with this gradual approach, the CBE has recently shifted their role from only supervising the compliance with banking laws and regulations to include a forward looking risk based component, this is clarified by a CB official as follows: "Now, The CBE emphasis is on adopting a more forward looking approach of assessing the risks associated with banks they supervise, in the way that helps avoiding problems before they rise". As such one government official refers to a proposed corporate governance code "we are working with an international agency experienced in corporate governance, to prepare corporate governance code for the banking sector. This code will be issued soon; will be endorsed by the CBE, but we are still thinking whether it will be issued on voluntary basis for initial period then be compulsory, or it will be issued on a comply-or-explain basis"
So, the CBE is keen to enhance corporate governance in the EBS to protect depositor and maintain safety of the banking sector, while avoiding operational problems that would be encountered if the code is compulsory. Alternatively the CBE will follow the same flexible approach followed in enforcing credit operations for instance, where every bank is allowed to have its own credit rules, which are approved by the CBE (Law 88, 2003), and depend on other mechanisms such as on-site examination and the external auditors' scrutinizing of the adequacy of control systems of every bank and the compliance with the regulations (Law 88, 2003: article 84).

Moreover, CBE considers that corporate governance should be based on mutual collaboration between the regulator and banks "we want to see banks trying to improve their corporate governance practises and the CBE will of course offer help and guidance "(CBE official).

5.3.3 Upgrading Supervision

This open category has emerged in relation to the following question:

Q4: What are the mechanisms used by the CBE to enhance bank's corporate governance practices?

Upgrading supervision has emerged to indicate the processes or mechanisms undertaken by the CBE to enhance BCG practices within the EBS. Supervision generally indicates that someone "make sure that things are done in the correct way" (Electronic Longman Dictionary). In an organizational context supervision indicates the act of "oversight that is necessary ... to prevent wrong doing that may go unnoticed" (Encyclopaedia of Management, 2009:20). This open category has emerged to demonstrate supervision as the principal mechanism utilized by the CBE to make sure that banks comply with corporate governance laws and regulations. As such enhance BCG practices. It is a measure of safety and soundness in banks. Moreover, this function is being upgraded by the CBE to bring about more compliance with corporate governance laws and
regulations. This open category is observed through its properties supervision processes and efficiency and effectiveness of supervision. This can be discussed as follows.

I. Supervision Processes

"The CBE is an autonomous public legal entity which regulates monetary, credit and banking policy, and supervises its implementation in accordance with the banks and credit law, the law of the central bank and banking system, and the regulations of the Board of the CBE promulgated under these laws" (CBE, 2010) [Online]. Therefore, one of the CBE's main functions is to supervise the implementation of laws and regulations. The focus here is corporate governance practices and what supervision has to do with it.

According to BCBG (2010), the role of enhancement of BCG practices is related to the supervisory role of the regulator. As

Supervisors should provide guidance to banks on expectations for sound corporate governance .... (Through) establish guidance or rules... especially ... where national laws, regulations, codes, or listing requirements regarding corporate governance are not sufficiently robust to address the unique corporate governance needs of banks... (Meanwhile) Supervisors should regularly perform a comprehensive evaluation of a bank's overall corporate governance policies and practices and evaluate the bank's implementation of the principles" (BCBG, 2010:29).

In fact, the previous quote reflects what the CBE is trying to do regarding corporate governance of banks, given the limited corporate governance scope within the current laws and regulations. The CBE is trying to guide banks in relation to corporate governance through issuing a code for the banking sector as previously mentioned. But issuance of a corporate governance code or guidelines is not enough and does not automatically mean bank compliance with such regulations. As such supervision plays a crucial role in this context. It should include regular and comprehensive evaluation of banks' overall corporate governance policies and practices (BCBG, 2010). Additionally, regulators should "supplement their regular evaluation .... By monitoring a combination of internal reports and prudential reports .... require effective and timely
remedial action by a bank to address material deficiencies in its corporate governance" (ibid).

CBE officials have indicated that the CBE supervises the implementation of the current corporate governance aspects covered by laws and regulations through a number of processes "we have more than one mechanism for effective supervision namely: on-site examination, off-site examination and surveillance" (CB official).

On-site supervision includes "on-site examination at least once every 2 years, in addition to some limited examinations which are done when necessary .... the objective ...... to verify the soundness of the financial position of banks and that they are in compliance with banking laws and regulation" (CBE, 2010) [ONLINE].

While, off-site analysis represents "An important segment of the CBE's supervision...conducted through the review and examination of numerous reports...financial reports and prudential reports ... these covers a broad range of bank's operations" (ibid).

Finally, prudential surveillance includes "fit proper test for CEO, board members and senior management; bank strategy and board oversight, stress testing; compliance & internal audit effectiveness; scrutinize external auditors work" (CBE, 2007: 7).

Moreover, the CBE has a range of corrective measures in case of banks' violation of laws and regulations ranging from reduction or suspension of credit facilities of a bank till dissolving the board of directors of the violating bank and appointment of a commissioner. (CBE, 2010) [Online].

In conclusion, supervision processes implemented by the CBE consists of three functions or mechanisms: on-site examination, off-site examination and prudential surveillance. These processes oversee banks' compliance with applicable laws and

78 A presentation of the CBE on corporate governance and the role of the CBE (May, 2007). This presentation has been handed by a CBE official to summarize more precisely what she/he wants to say.
regulations including corporate governance. Indeed, this demonstrates that the CBE has in place the mechanisms to enforce corporate governance; however, how successful is the CBE in performing this role is another aspect discussed in the following subsection.

II. Efficiency and Effectiveness of Supervision

Efficiency and effectiveness of supervision complement the previous sub-category of supervision processes. It aims to show how the supervision function has been subject to upgrading and how this will affect corporate governance of the EBS.

"Efficiency is doing things right and effectiveness is doing the right things" (Encyclopaedia of Management, 2009: 217). In the context of the supervision operations efficiency, bank directors and executives especially from non-state banks have questioned the competence of the CBE Examiners “The CBE has the principal role in supervision of banks in Egypt, but a main problem is that the examiners are not competent enough; they are superficial” (Director, Foreign Bank). This would certainly affects the efficiency of supervision, as incompetent examiners would not be able to do “things right”.

Additionally, participants from the banking field considered that independence of the CBE is crucial to maintain the objectivity of supervision and hence its efficiency. It must be noted here that the banking law 88/2003 considered the “The central bank of Egypt (CBE) is an autonomous public legal entity” (Law 88, 2003: article 1.1).

However, a CB official has commented that:

The independence of the CBE that the banking law 88/2003 has advocated is not real. If the CBE is really independent then the government should not interfere in its roles. But the opposite is true. Because of the co-ordinating council. This council is responsible for setting the monetary policy, it is chaired by the Prime Minister, while the CBE governor is only a member in this council with other Ministers” (CB official).

In fact, the banking law 88/2003 states that “The central bank shall set, in agreement with the government, the objectives of the monetary policy, through a coordinating
council to be formed by decree of the president of the republic” (Law 88/2003, article 5: 5)

Moreover, the executive regulations states that “meetings of the council shall not be valid without the presence of at least two thirds of its members, including a representative of the central bank and a representative of the government (Executive regulations of law 88/2003: chapter one, Article 10: 4). Furthermore, the presidential decree Number 17/2005 has assigned the chairmanship of this council to the Prime minister. As such, this makes the CBE independence debatable.

The degree of independence of the CBE has been studied previously by Farrag and Kamaly (2007), they concluded that “the CBE enjoys a moderately low degree of independence” (P. 21). They added that their study has captured discrepancies between the degree of independence conferred to the CBE by law and actual practices. Indeed, this would have an adverse effect on the supervisory role of the CBE and its efficiency in addressing corporate governance issues. Because lack of independence could impair objectivity of supervision and hence its efficiency. Notably, reduction of government interference in the CBE issues is essential to achieve CBE's independence (ibid).

On the other hand, CB officials have indicated that the on-site examination occurs by the aid of systematic forms of evaluation called CAMEL similar to that used in the USA (CBE, 2010) [Online]. However a CB official commented “Examiners should not only work according to the CBE examination manual only because this will not lead to discovering real problems. An examiner should have a six-sense to enrich the examination process”

CAMEL rating is a rating system designed to assess the financial soundness of the bank based on five components “Capital adequacy, Asset quality, Management competence, Earnings, and Liquidity” (Gasbarro et al, 2002: 248)
Another bank executive added:

*Examination process of the CBE is not so frequent it occurs once every two years, moreover, it does not evaluate the contemporary emerging issues but focus on recurrent issues examined every time* (Executive Manager, Foreign bank).

This indicates that the scope of the examination does not cover crucial things that emerge, also its frequency is low and examiners may not stick to the CBE manual. All this would decrease the effectiveness of the supervision.

For all mentioned above, the CBE has decided to upgrade the supervision function as part of the overall banking sector reform. This was part of various stages of the EBS reform. During the first stage of reform the objective was to “upgrading of the supervision sector of the CBE” (CBE, 2009:17). While, during the second stage of reform the CBE has been more specific in addressing the crucial issues to an effective and efficient supervision. Now, the CBE has added qualitative standards that ensure the safety of depositors' funds rather than depending on quantitative measures only. For the first time “good governance rules, information system efficiency and the appropriate competency standards for officials and managers of banks' key sectors” (ibid: 13) will be areas to be assessed within the supervisory framework. This will directly affect effectiveness and efficiency of supervision in relation to corporate governance. Firstly, including corporate governance explicitly to the scope of supervision will enhance effectiveness. While, addressing competency of both officials (CBE examiners) and bank management teams will affect efficiency.

Moreover, the CBE signed a memorandum of understanding with the European Central bank to assist in reforming the supervision sector with the application of Basel II standards (ibid), which is another upgrading to both efficiency and effectiveness. Because the European Central bank will transfer technical knowledge regarding what should be done? (Effectiveness) and how? (Efficiency). Finally, the CBE has announced

\[6\] Covers the period of 2009-2011.
a plan to expand its on-site examination, increase the number of banks inspected, and increase the frequency of inspection to be on a yearly basis. In parallel, this included the efforts to recruit "highly qualified banking staff (CBE staff) acquainted with new technology, enhance the efficiency of human cadres to be capable of managing this key sector (supervision)" (ibid: 17). This wide reform is expected to assist in "take immediate corrective actions in this regard" (ibid). As such, the CBE is exerting more efforts to improve the scope and frequency of supervision. At the same time, it is trying to provide competent staff capable of implementing this new framework. Indeed, this should be reflected on the efficiency and effectiveness of supervision. However, it seems that the independence issue will continue to exist limiting the impact of these reforms.

5.3.4 Bank Competitiveness

The open category Bank Competitiveness has emerged from the analysis of the following questions:

Q3: To what extent corporate governance affects competitiveness of the bank?

Q11: To what extent banks insist on client's corporate governance in credit operations? What benchmark the bank uses in this respect?

Competitiveness refers to the strategies that every organization sets to achieve the best possible strategic advantage (Cunliffe, 2008). Competitiveness can be considered as an organizational value that "identify where the organization is headed and how to get there" (ibid: 59). These values should be held by all employees (ibid). Indeed, organizational values represent a component of the organizational culture that shapes the image that the stakeholders have of the organization (ibid).

In context of the EBS, bank directors and executives from various banks have spoken about the competitiveness of their banks as related to corporate governance practices.
The open category bank competitiveness can be explained in terms of two properties observed, the time horizon and banking segment as follows:

I. Time Horizon

Bank directors and executives from various banks have differentiated between corporate governance and competitiveness relationship based on time horizon. They have indicated that banks with values that do not support strong corporate governance are those banks with focus on achieving short-term success. However, they agreed that short-termism can lead to failure in the long-term. As, short term success is based on seeking risky business such as offering credit to high risk profile clients, unconcerned with good corporate governance. The following quote clarifies this meaning:

_Banks deal with all types of people from which there is a percentage that are bad clients, some banks lower their conditions to attract this percentage. This means that banks with good corporate governance will lose this type of client because the client is not up to the standards of the bank. In conclusion, bad corporate governance practices may lead to gaining more clients in the short term but in the long-term these banks will suffer. Banks have to comply with effective corporate governance in order to continue to exist and protect their reputation and name (Executive, Private Bank)._  

Other banks with more corporate governance compliance tend to be selective in terms of accepted customers. These maintain their corporate governance practices regardless of any short-term losses incurred from adopting this strategy.

_In the short-run the impact of good corporate governance is negative on the bank competitiveness. However, the impact in the long-run is surely positive. Because the low quality banks that accept low quality clients will definitely suffer later-on and accordingly, lose their market to the high quality banks with stringent corporate governance practices (Executive, Foreign banks)._  

So two strategies exist in the EBS in relation to competitiveness. On the one hand some banks set their objective achieving short-term competitiveness and meet the requirements of the shareholders. These banks accept high risk profile clients that are more likely to be refused by banks with stringent corporate governance standards. This strategy is currently successful given that these banks attract new clients with low credit worthiness who wants to satisfy needs falling beyond their purchasing power.
Nowadays many banks are focusing on individuals who do not have enough money but seeks a higher social status by owning goods that give them this status such as cars, laptops, mobile phones (CBE Official)

On the other hand, other banks are conservative and maintain compliance with high corporate governance standards regardless of the negative short-term effects it may have. These banks focus is achieving competitiveness in the long-term.

According to our standards we never get into competition through reducing our conditions in favour of winning a low quality client. Conversely, if the client deserves 5 millions we give him 1 million only. However, there are other banks in the market that choose to be more flexible and approve offering this client the loan. But later on this will turn to be a NPL and they will regret it!! (Executive, Foreign bank).

Indeed, banks focusing on short-term profits regardless of the associated high risks signify an obstacle for good corporate governance promotion. Here, the only solution seems to be in the hands of the CBE as the sole authority responsible of issuing further corporate governance regulations addressing this aspect in addition to implementing more stringent supervision.

II. Banking Segments

Banking segments refer to the various business lines in commercial banks. Two business lines can be identified, firstly, is retail banking. It refers to “financial services such as lending and collecting deposits from individuals and small businesses” (Bessis, 2002). Secondly, is corporate banking related to the financial services with “identified borrowers and relationship banking” (ibid), this includes dealing with big corporations for instance.

Bank directors and executive managers have indicated that corporate governance competitiveness relationship discussed in the previous section can be easily observed in the retail banking segment more than corporate banking. This is because the banking penetration rate in Egypt is quite low i.e. most of the population has never transacted with a bank. However, these days this ratio is increasing.

Banks nowadays focus on retail segment because it is easy to run and very profitable and is more growing. They are not concerned with corporate governance at all. I think this will
continue for some time because all what you see represents 4% of the population in Egypt, still 94% do not have any dealing with banks (Director, Arab Bank).

This means that these clients are unaware of banking and indeed corporate governance. So they are less likely to transact with banks with tight corporate governance. Because these banks will normally require collaterals and more information\(^{81}\) to satisfy themselves that the client can repay the loan. Finally, retail clients are much happier with banks that do not seek too much information. A private bank executive tells the experience of his/her bank which started reforming their corporate governance system and describes the troubles with retail customers, signifying that changes in corporate governance can affect competitiveness.

Lately, we introduce some changes to our new accounts application form, the changes we introduced was directed to better know our customers through certain measures and information such as other banking accounts held, average salary, membership of social clubs, car ownership, spouse details etc. You cannot imagine the problems we had because of the new application form, people were unhappy to supply any information. We lost many customers in this move (Executive, Private bank)

On the other hand this is less evident in the corporate banking segment because the focus of this segment is large corporations which are well positioned and more inclined to reputable bank that can deal with them on a win-win scenario. Not with banks that could cause them future troubles.

The case is much better when we talk about corporate banking, because by definition companies falling within this category are big enough and strong enough to satisfy the conditions of banks with proper corporate governance in place. Big corporations are looking for a strong bank that can satisfy its demands in terms of better interests rates, service quality and safety. (Executive, Arab bank).

However, because there is still a type of corporations that are not up to the standard and because many banks do not deal with corporate governance in an explicit and a comprehensive way as previously mentioned. Instead, they look at cash flows abilities of the company, its management team and reputation. It is likely to find some banks that consider how proper corporate governance can affect their competitiveness. Still this segment is better than the retail segment.

\(^{81}\) This may include a prove of the origin of funds to avoid being involved in money laundering or terrorism financing.
have worked in 3 different banks, in this segment the credit officer consider that every loan to be a management loan. We also look at typical issues like financials, reputation, inventory and cash flow generation ability. In addition we ask for proper collateral. But still we don’t have an explicit corporate governance requirements (Executive, State bank).

5.3.5 Pressure Groups

The open category pressure groups has emerged in relation to the following question:

Q6: What bodies play an important role in bank's corporate governance?

Pressure groups refer to the various entities, institutions and bodies that exert a pressure on banks to improve or reform their corporate governance practices. Participants from the banking field have agreed on a number of groups that have impacted the corporate governance phenomenon.

The open category pressure groups can be discussed in terms of its properties sources of pressure and the impact of pressure as follows:

I. Sources Of Pressure

Participants from the banking field have agreed on two types of groups that have influence on corporate governance practices of banks within the EBS namely: independent and governmental groups. These can be discussed as follows:

Independent Groups

Independent groups include those who do not have any business interest or connection with banks. These include the regulator, external audit firms and international organizations such as the World Bank and Basel committee.

Both the CBE and the external auditors should be independent according to law 88/2003. Which states that the CBE is “a public legal person, directly subject to the president of the republic” (Article1:1). Similarly, the same law requires that auditors must be independent and prohibits that the auditor or any of his/her family be engaged in any transaction that would impair this independence. An governmental official asserts that “Bodies that play important roles are the CBE as the sole regulating authority and the external auditing firms” (Governmental Official).
Another Executive added:

This would include the World Bank, the CBE, and auditors. These bodies have an influence on shaping corporate governance of banks. Especially, International organizations such as Basel Committee because they set international guidelines for corporate governance of banks which should be adopted by banks in both developed and developing countries (Executive, Foreign bank).

Moreover, a corporate governance expert adds that

Donors such as IFC, World Bank, CIPE have a significant role in BCG because they require banks' compliance with internationally accepted governance standards to qualify for receiving donations.

Here various participants from the banking field have agreed that the CBE, auditors and international organizations have influence on corporate governance of the EBS. This signifies that these bodies exert certain types of pressure. The CBE as the regulator has the authority to issue and enforce corporate governance related regulations. The following quote clarifies this:

The main body that have an important role in banks' corporate governance is the central bank which is the only authority responsible for the regulation of the banking sector in Egypt (Executive, Arab bank).

As such the CBE here is exerting coercive pressures on the banking sector. The CBE can punish or delist any non-complying bank by the powers entitled to the CBE by law as follows:

The CB shall take the means with which it ensures the realization of its objectives and discharge of its functions. It shall, in particular have the following powers...supervising the units of the banking sector ... the bank may undertake any tasks or take any measures required for applying ....credit, and banking policies, as well as for guaranteeing the soundness of bank credit (Law88,2003: Article 6: 5-6).

The CBE exerts also a normative pressure through the EBI which is established by law 88/2003:

The banking institute shall be established and be affiliated to the central bank ... the banking institute shall be concerned with the development of skills in the fields of banking, financial and monetary aspects, and combating of money laundering, for staff of the central bank, banks and other parties ... with the aim of keeping abreast of world developments and firmly establishing sound professional rules (Law 88,2003, article 45:21).
Indeed, the EBI has taken the initiative to increase corporate governance awareness in the EBS by organizing corporate governance seminars\textsuperscript{82}, but still more efforts are required. According to the EBI's executive manager, the institute is now preparing a corporate governance code for banks in collaboration with the IFC\textsuperscript{83}.

Auditing firms as well exert pressure on the banking sector in relation to their corporate governance practices, but indeed, to the limit stipulated by law and regulation and as enforced by the CBE. Here it should be noted that auditing firm pressure is derived from the authority of the regulator (CBE). As the banking law has determined the role of the external auditing firm in the following:

\begin{quote}
Bank accounts shall be audited by two auditors ... each bank shall determine the procedures to be applied for facing irregular finance and credit facilities. The management of each bank shall comply with these standards & implement these procedures. The auditors shall also verify the compliance of the bank management with these standards (ibid: 11). The two auditors shall prepare their report on auditing the banks financial statements, the extent of adequacy of internal control ... any regulatory or supervisory standards that the Board of directors of the central bank requires the auditors to verify bank's compliance with (ibid: PP.37-38).
\end{quote}

As such auditor exerts pressure on banks to comply with banking regulations including corporate governance related because they are required to verify banks' compliance with applicable laws and regulations.

\begin{quote}
External auditors should play an extremely important role in banks' corporate governance, because they report to the shareholders and the general meeting about everything in the bank including financial statements, credit and investment operations and internal controls as well (CB official).
\end{quote}

In case of non-compliance the two auditors are responsible to communicate the case to the CBE and the bank's general assembly. This can possibly lead to penalizing these banks by the CBE.

In practice, this role is questioned by participants from international auditing firms, bank executives and directors. They raised the issue that many auditors focus on appearance rather than essence as shown in the following quote:

\begin{quote}
\textsuperscript{82} The researcher has attended an international event organized by the EBI and CIPE on "corporate governance of the Egyptian banks" held on 15\textsuperscript{th} April 2009 in Marriott Hotel, Cairo, Egypt.
\textsuperscript{83} Although this announcement was made in the same seminar above mentioned, till this thesis has been submitted the code was not yet issued.
\end{quote}
Although on paper everything seems to be perfect, it is form over substance. Officially auditors have done rigorous auditing of banks, but how effective is that? It is not effective. Most domestic Auditors focus on evidence collection without properly analyzing them (Executive Manager, International auditing firm).

This indicates that local auditors’ competence is questioned and as such there role in bringing about corporate governance compliance is questioned.

Finally, international organizations exert pressures on the EBS regarding its corporate governance practices. This opinion was agreed upon by corporate governance expert, bank directors and executives from Foreign and Private Banks as well as CB officials.

Donors such as the IFC, the World Bank and OECD have played a significant role in bringing corporate governance to Egypt. They require certain standards to donate funds. Moreover, the OECD has a great influence on the Egyptian code of corporate governance. These international organizations affect the corporate governance in the EBS indirectly through co-operation with the government (Corporate governance expert).

International organizations exert a normative pressure by establishing standards that constitute good corporate governance. In fact, international organizations play a role for stimulating compliance with international standards of corporate governance. On one hand, by requiring the compliance with these standards as a condition for donation, indeed, this encourages banks that seek the international organizations’ funds to show compliance with these standards. On the other hand, international organizations establish corporate governance standards that overtime become the norm of the international banking community. The latter case is similar to Basel I and Basel II accords, which are not mandatory, but the CBE is keen to mention the compliance with Basel I and seeking compliance with Basel II to appear legitimate in the eyes of the international banking community. Recently, the CBE has mentioned that “considered

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84 These participants have identified the pressures of the International organizations because they have Foreign origin such as the Foreign banks, have interests of expansion such as Private Banks or responsible for integration with the international banking community as in the case of the CBE.

85 Here normative pressures refer to the pressure created on banks as a result of corporate governance standards established by international organizations. These standards creates an institutional pressure based on a binding expectation that banks should comply with these corporate governance standards to be perceived as appropriate within the international banking domain (Scott, 2001). Also, international organizations normally use these standards as a benchmark for well-governed banking organization. More precisely, international organizations would use these standards when making donations to well governed banks.
as requirements of sound banking, the EBS has fully complied with Basel I and in the way to comply with Basel II (CBE, 2009).

**Governmental entities**

Governmental entities are another source of pressure on the EBS in relation to corporate governance. Executive managers and directors from various banks and governmental officials have named the Ministry of Investment as the principal governmental entity that exert pressure on the EBS regarding corporate governance. "The Ministry of Investment is responsible of improving the investment climate in Egypt. They are the principal body behind corporate governance reform in Egypt" (Director, State bank). Another Executive Manager added "The ministry of investment has a vital role in introducing corporate governance in Egypt" (Executive Manager, Private bank). In fact, the Ministry of Investment has started corporate governance reform in Egypt by asking the World Bank to assess corporate governance in Egypt (ROSC, 2001; ROSC, 2004). Upon the recommendations of these assessments, the Ministry of Investment has undertaken serious steps to improve corporate governance in Egypt. For instance it established the EIOD with the responsibility of "spread awareness, knowledge and best practices of corporate governance in Egypt" (EIOD, 2009) [online]. The EIOD has made a genuine contribution towards reforming corporate governance in Egypt by issuing the first code of corporate governance in 2005. This code affect banks, it has assigned banks the responsibility of corporate governance promotion "banks ...should take the articles listed in the code into consideration when doing business with or evaluating corporations to determine the extent to which the provisions and content of these rules are upheld" (ECOCG, 2005:4). In addition to encouraging banks to comply with the code articles. As such this code exerts another normative pressure on the banking sector by requiring it to consider corporate governance principles as criteria of
doing good business with clients, and at the same time by encouraging the banking sector itself to adopt its principles.

Another, governmental body that exerts pressure on the EBS regarding corporate governance is the Egyptian Stock Exchange "Now, CASE\textsuperscript{86} has added corporate governance related issues as part of the listing rules, with which we must comply with" (Executive Manager, Private Bank). Participants from the stock market have indicated that few corporate governance aspects\textsuperscript{87} have been added to the listing rules "we have introduced some of the code principles into our listing rules. This included the requirement to disclose material events, related party transactions and audit committees Formation" (Governmental official, CASE). It must be noted that CASE is not in favour of requiring listed companies to comply with all the articles of the ECOCG (2005), because

\begin{quote}
Previously we had a high number of listed companies now we have only 320 companies and my own expectations that these number will decrease by the end of the current year, companies now prefer to do transaction over the counter, unfortunately we have no say on transaction made over the counter regarding enforcing governance rules, we do want to be more strict at the time being because this means that more companies will choose to be delisted (Governmental official).
\end{quote}

So, in effect banks do not face a real pressure from the stock market in relation to corporate governance because corporate governance requirements established by the CBE have a wider scope.

II. Impact of Pressure

Although various bank types (Foreign, Private, Arab, State) have different corporate governance identities as discussed earlier in this section. They are all affected by the abovementioned pressures and do respond to it. Responses of the four bank types are basically related to being perceived as legitimate by the CBE and shareholders. Based on the participants’ views, the pressures exerted by the CBE is the most significant

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{86} Cairo and Alexandria Stock Exchange
\item \textsuperscript{87} Based on the 2008 CBE registered banks list and participants of the study, 16 listed banks and 5 unlisted banks are included. It is worth noting that all state banks are unlisted.
\end{itemize}
\end{footnotesize}
pressure on the banking sector towards adoption of particular corporate governance arrangements. The stock market exerts a similar coercive pressure on listed banks to comply with the corporate governance requirements within the listing rules to avoid penalties. But this impact is limited because the CBE requirements are wider in scope and banks are already required to comply with the CBE regulations.

While, International organizations pressures impact the banking sector indirectly through the CBE. As these organizations such the World Bank and Basel Committee identify corporate governance of banks as a measure of soundness and appropriateness. Moreover, they can directly impact banks by requiring good corporate governance as a prerequisite for donation. However, the former case occurs over time and is likely to bring about more change because they induce the CBE to change the regulatory framework in accordance to international standards. As such one could conclude that international organizations exert pressure on the banking sector, however, its impact can be felt over time.

Regarding the EIOD, it should have a major role in corporate governance promotion in Egypt; however, none of the participants recognised this role indicating that communication channels with the banking sector are not well established. Also, this would indicate that the EIOD focus is on non-financial institutions. Similarly, the EBI should play a role in corporate governance promotion through its professional training services; however, this role is currently not significant as the EBI has organized only one corporate governance seminar in the last 2 years and until now corporate governance training courses do not exist.

The Institute has not yet started providing corporate governance training courses. Principally, many of bankers are not familiar with the concept, so it will be worthless to organize training courses that no one will attend (EBI Official).

5.3.6 Interests’ Protection

Interest refer to “material right, benefit, asset, or share possessed by fiduciary or by others with whom he/she is legally or closely associated (family members, business
partners, employers, benefactor, client, or the like)" (Luebke, 1987:69 cited in Martin and Gabard, 2001:315). In the context of this study, the open category interests' protection refers to the role of particular interest holders in deriving the corporate governance phenomenon as a means of protecting their interests. Indeed, corporate governance has a role in "Satisfying legitimate expectations...by interests beyond the corporate boundaries" (Tricker, 1984 cited in Solomon and Solomon, 2004:13) in addition to shareholders. The open category interests' protection has emerged from the data collection and analysis related to the following interview question:

Q7- Whose interests does bank's corporate governance mechanisms protect?

This category refers to the stakeholders' interests that are central to corporate governance of banks. Indeed, those recognized stakeholders' play an important role in bringing about corporate governance change as a means to better protect their interests. This category was observed in terms of its property priority of protection which can be discussed as follows.

I. Priority Of Protection

Stakeholders of a bank can include many parties such as shareholders, depositors, regulator, employees and the society. In relation to corporate governance, bank executive managers and directors had totally agreed that corporate governance mechanisms have to protect shareholders because they are the owners of the bank.

_The most important interests to be protected by corporate governance mechanisms are the shareholders' interests, simply we work for the shareholders so everything we do should serve their interests first (Executive Manager, Private bank)_

Another bank executive stated that:

_Without thinking, shareholders interests must be served, we work for them; if they are not satisfied the whole management team can be changed (Executive Manager, Foreign Bank)_

Moreover, even in the case of State banks which are totally owned by the government, executive managers have also indicated that the government interests as the owner must be served.

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The abovementioned agreement of participants from various banks on giving their shareholders the first priority in protection reflects the power\textsuperscript{88} of shareholders\textsuperscript{89} on board and executive management teams. This was clearly observed across all cases. However, this does not mean that shareholders are actively seeking corporate governance improvement in all cases. This is particularly linked to the organizational perception of corporate governance discussed above in the corporate governance identity category. More precisely, some shareholders' such as those of foreign banks seek compliance to broader standards of corporate governance than those stipulated by the Egyptian banking corporate governance laws and regulations because it enhances shareholders' protection. While, other banks such as State banks seek legitimacy in the eyes of shareholders by serving their interests and appear as complying with the corporate governance regulations outlined by laws and regulations.

In terms of priority, participants from the banking field agree that the regulator's interests should not be included amongst other stakeholders. Here the assumption is that the regulator has no interest that should be protected alike protecting shareholders' interests for instance. But they see that serving the regulator (CBE) is a must because it is the regulating authority that is maintaining the soundness of the whole banking system and serving it is not optional. In other words they have the powers and authority to bring about compliance with laws and regulations.

\begin{quote}
The CBE is the sole regulator of the banking sector in Egypt, any bank before starting its operations or even open a new small branch has to ask for approval from the Central bank. The banking law has granted the central bank all this Power. Also, all the appointments of board members, top executives and credit and or investment jobs must seek approval of the central bank. So, there is no choice but to observe its requirements.
\end{quote}

\textsuperscript{88} The shareholder's power over boards of directors and consequently on executive management is gained not only because they are the owners and both directors and manager owe to them fiduciary duty but also because the ownership concentration ratio is quite high in most of banks, where the top three owners shareholders own more than 90% of the bank’s capital. As such this ownership concentration gives owners power to put pressures on the bank's board and management to serve their interests and offer them protection.

\textsuperscript{89} Researcher calculation based on Bank-Scope (2009) data of the ownership structure of banks within the EBS. This ratio is calculated for 21 banks participating in the study.
otherwise, the bank may face troubles that can reach seizing to exist (Executive Manager, Private bank).

Given the shareholder primary discussed above and the high ownership concentration ratio, potential conflict of interests between shareholders and other stakeholders such as depositors would increase. However, due to the special nature of the banking industry, the regulator (CBE) plays a pivotal role to put in place the corporate governance arrangements to maintain depositors' funds protection. Participants from the banking field have indicated that depositors' interests became an overriding objective of the CBE and consequently a fundamental reason for improving corporate governance in banks. This quote indicates this meaning "We protect depositors because the central bank is very stringent in this aspect" (Executive Manager, State Bank).

Moreover, board directors and executive managers have spoken about other stakeholders such as employees, local communities, environment and borrowers. Here, they agreed that these stakeholders are less important than the regulator, shareholders and depositors and banks do not have to serve them.

When I talk about other stakeholders, this is selective and optional to the bank management to determine what policy to follow with them. However, they have indirect relationship with my business (Executive Manager, Foreign bank).

This indicates that other stakeholders do not have enough power on banks to be included in the top priority groups neither they threaten the legitimacy of banks. At the same time, this would indicate that other stakeholder groups do not have interest in corporate governance either because they are unaware of "corporate governance as a source of their protection as the term is new" (Director, State Bank) or because of their rejection of corporate governance "you cannot imagine the problems we had because of

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90 Protecting depositors' funds has became a priority for the CBE, especially after corporate governance related bank failures has occurred during late 1990s. Leading to a huge NPL problem that is burdening the Egyptian banking industry until now. So here protecting depositors is a priority for improving bank corporate governance in the EBS. Not because the depositors themselves are aware of what good corporate governance can offer them. These failures have cost the CBE high bail-out costs to compensate depositors for their lost funds.
the new application form, people are unhappy to supply any information. They are against corporate governance (Executive Manager, Private Bank).

In conclusion, this clarifies that BCG is primarily driven by the power of the CBE and shareholders. Depositors themselves are not powerful in relation to inducing corporate governance change because in most of the cases they are unaware of corporate governance. But the CBE considers that their protection is an overriding objective.

This open category can significantly clarify how corporate governance can be defined within the context of the EBS. As the debate is always whether corporate governance arrangements should serve shareholders solely or serve a wide range of stakeholders. This category has identified whom interests' should corporate governance serve based on the power they have. This matches to a great extent the scope of corporate governance determined by EBI (2006) and Basel Committee’s definition of corporate governance.

*Corporate governance involves the manner in which...banks...meet the obligation of accountability to their shareholders and take into account the interests of other recognize stakeholders (supervisors, governments and depositors)* (BCBS,2005:4)

Indeed, this reflects the prevailing corporate governance model in the EBS is likely to be a pluralistic model that serves recognised stakeholders namely: shareholders, regulator and depositors.

5.3.7 Board Effectiveness in Corporate Governance

The category of “Board effectiveness” has emerged in relation to the following interview questions:

Q8: What role does the board of directors have in corporate governance of banks? To what extent is this role effective?

Q9: How the board ensures that board members understand their role in corporate governance?

91 See Literature Review Part One for detailed analysis of shareholding and stakeholding perspectives of corporate governance.
The category board effectiveness has emerged to explain the extent of board of directors’ contribution to BCG promotion. According to Basel Committee (2005) the board of directors is

_Ultimately responsible for the operations and financial soundness of the bank. Board of directors and their individual members add strength to the corporate governance of a bank when they understand their oversight role and their fiduciary "duty of loyalty" and "duty of care" to the bank and its shareholder.... Avoid conflict of interests .... Commit sufficient time and energy to fulfilling their responsibilities ... continue to develop and maintain an appropriate level of collective expertise .... Periodically assess the effectiveness of their governance practices .... select, monitor ......replace key executives...Exercising their duty and authority to question and insist upon straightforward explanation from management .... Promote bank safety and soundness, understand the regulatory environment and ensure the bank maintains an effective relationship with supervisors (BCBG, 2005:10)._

As such, there is no doubt that the board of directors of any bank has a fundamental role in corporate governance. Within the context of the EBS, the majority of banks participated in the survey have confirmed this role\(^2\). However, further investigations of this aspect through the semi-structured interviews have culminated the nature of this role.

Board directors from various types of banks have agreed that the board has a fundamental role to strengthen BCG _"The board of directors have a major role in bank’s corporate governance"_ (Board director, Foreign bank). While, a state bank director adds:

_The board’s role in corporate governance is fundamental. The board is accountable to the shareholders and therefore they should make sure that the executive management is running the bank in compliance with applicable laws and regulations (Director, state bank)._ 

This indicates that directors are aware of the important role of boards’ in corporate governance. Moreover, board directors considered that corporate governance is a mechanism that helps them to satisfy shareholders who can hold them accountable. In explaining what they mean by the board of directors’ role in corporate governance, board directors from various banks have indicated that the board should set governance strategies and policies within the overall bank strategy.

\(^2\) The survey has shown that 86 % of the participating banks confirmed that the board of director has a corporate governance related role.
The board of directors is the main player in corporate governance; they set policies and strategies related to corporate governance amongst many other issues. They give green light to pursue something or the red light to stop another (Executive Manager, Private bank).

To these participants corporate governance strategies and policies include a wide span of issues such as oversight and approval of aspects related to internal control, internal auditing, external auditing, financial reporting and disclosure, nomination and remuneration of key executives and board members. However, the effectiveness of carrying out these roles is questioned by participants. Moreover, board directors of various banks have agreed that board of directors should necessarily include a monitoring role on the bank’s governance practices.

Corporate governance is a main concern of the board, their roles includes having regular meetings, setting and following up policies and strategies, to see whether they are implemented or not, they should request performance reports. The effectiveness of carrying out these roles varies from one bank to another. There are very good cases and there are poor cases (Director, Foreign bank).

Indeed, boards’ effectiveness in their corporate governance role differs from one bank to another. According to participants this is related to some factors. These factors are discussed as the properties of the open category Board effectiveness. This includes formalization of corporate governance, Board members’ Competence, and board members’ independence.

I. Formalization of Corporate Governance

Board-directors from various types of banks have spoken of the degree of formalization of corporate governance at their banks. Here formalization means, whether corporate governance practices are based on formal written documents such as internal codes of corporate governance. "We have an internal code of corporate governance, every employee can access this code on the internal computer network" (Executive Manager, Private Bank). Among the interviewed banks, mainly foreign and few private domestic banks have such codes. This indicates that from this perspective corporate governance is not formalized among most of banks.
Additionally, the existence of board level specialized committees related to the corporate governance is another way of formalizing corporate governance. These committees include credit, nomination and remuneration, risk management, audit and corporate governance committees. Specialized committees play a crucial role in corporate governance of the bank. These committees provide a formal mechanism to enhance corporate governance.

"We have an audit, risk and credit committees, these committees main focus is corporate governance. In my opinion, these committees are a quite effective tool to manage corporate governance issues of the bank. Without them the board effectiveness would be much lower because the board is very busy to do this job (Board director, private bank)."

However, having these committees is not a common practice in banks. For instance the survey has shown that 62% of surveyed banks have corporate governance related committees to a little extent. Indeed, all of them have an auditing committee as required by the banking law which interprets this percentage. Accordingly, it is unsurprising that most of banks do not have other committees, because they are not required legally to have them. Generally, this would highlight that the boards’ role in corporate governance of banks is limited. Finally, this indicates that most of banks only consider corporate governance arrangements that enhance their legitimacy. So, as long as the formation of these committees is not legally sanctioned, banks do not consider them.

II. Board Members’ Independence

Directors and executive managers from various bank types have talked about board effectiveness in its corporate governance role in terms of board members’ independence.

An independent board director is

"A person whose directorship constitutes his or her only connection to the corporation. The purpose of identifying and appointing independent directors is to ensure that the board includes directors who can effectively exercise their best judgment for the exclusive benefit of the company; judgment is not clouded by real or perceived conflicts of interests (EBI, 2006:34)"

Here participants agreed that most boards are not independent, this would not only diminish their corporate governance role, but also would lead to potential conflict of interests with recognized stakeholders. The main reason behind the independence
problem as clarified by board directors and executive managers is the nomination and selection process of board members. They indicated that in the case of non-state owned banks dominance of shareholders is likely to bring about the independence problem and as such reduce board effectiveness in corporate governance related aspects.

Selection of board members is not undertaken on proper basis, nowadays they select “grade 3” board members who are incompetent but accepts to do what they are told to do. Grade “1” has to keep themselves away because they do not fit in these roles (Central bank official).

The reason behind this phenomenon is the prevailing ownership structure, with high ownership ratios in hands of few owners. This “controlling shareholders” do have power to appoint members of board of directors (Basel, 2005: 11). Indeed, State-owned banks have the same independence problem but here it is not the matter of ownership concentration rather political influence.

As I told you effective corporate governance depend on the board effectiveness and the degree of independence from political influence, which still has a negative impact (Executive manager, State bank).

To summarize, one of the factors that holds back the effectiveness of boards’ role in corporate governance is the inappropriate nomination and appointment procedures in place in most of the banks. This procedures lead to boards’ composition that lacks the fundamental quality of “independence” leading to potential conflict of interests which is against good practices of corporate governance.

III. Board Members’ Competence

“Competence can be seen as the sum of knowledge and skills accumulated during a person’s lifetime” (Pickett, 1998 cited in Brinckman, 2006: 21). There is no doubt that banks’ board members play a crucial role in corporate governance of their respective banking organisations. As such, banks’ board membership “can no longer be looked upon as a matter of personal prestige, but banks need competent board members who can improve, innovate and drive the bank forward” (EBI official).

93 See the introduction of this open category section 5.3.7
Therefore, the best people should sit onto boards; they should have and maintain a high competence level. Here, given the questionable nomination procedures of board members discussed in the previous section, it is unlikely that board members are competent enough to carry-out their corporate governance duties.

During interviews one would have expected that as corporate governance subject is very recent to Egypt and its banking sector; it would have been normal that board members receive proper corporate governance training in order to increase their competence in the subject. However, the survey has indicated that in 90% of the surveyed banks, board members do not receive corporate governance training. This was confirmed by an EBI official that is the official training institute for the banking sector in Egypt.

_Board members in most of the cases do not understand their role in corporate governance, nor they accept to receive training, they put rules and most of them are arrogant (EBI Official)._ 

Moreover, executive managers from various banks have agreed that board directors do not even accept the idea of learning and training.

_I never heard of a board member that accept to take a training course. However, I know that they only accept to go for training, conferences and seminars but for entertainment purposes. Do you believe that a board member goes for 3 weeks abroad to attend “introduction to credit cards” I feel sorry for this country!!? (Executive Manager, Arab bank)._ 

This indicates that most of board directors lack the necessary competence required for enhancing corporate governance of the bank. However, it is the selection process that is responsible here, because it brings incompetent directors who are not willing to change or learn. This type of directors holds a misconception that sitting as a trainee would lower their personal status.

Another instance that indicates a competence problem is that at the level of senior bankers a misconception about what constitutes corporate governance exists. This was apparent from the opinion of corporate governance expert who states:

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94 However, this does not mean that this is the case in all banks and all boards. Fortunately, there are competent directors who had shown their competence during the interview process.
One major point that I found when I was working on a project related to corporate governance reform in Egypt. When we speak with senior bankers (Board members and senior executives) about corporate governance their responses were usually: we have good corporate governance because we have good risk management. There is a misconception that risk management is equivalent to corporate governance, while it is not, it is part of corporate governance, but does not represent the whole aspects of corporate governance (International corporate governance expert).

This was experienced during the interviewing process where five interviewees did not know what corporate governance is about? Or confused it with the concepts of risk management. "corporate governance is just a new name from Risk management" (Executive, Private bank). Indeed, this reflects the lack of knowledge and competence related to corporate governance and shows the need for corporate governance training.

5.3.8 Modifying Internal Corporate Governance Mechanisms

The open category modifying internal corporate governance mechanisms has emerged from the analysis of the responses to the following questions:

Q10-What are the internal governance mechanisms that the bank utilizes?
Q11-To what extent bank insists on good corporate governance in credit operations?
Q13-What is the basis to determine the risk management policy of the bank?
Q14-To what extent does the accounting standards adopted enhance transparency?

This open category explains various internal mechanisms that banks utilize in relation to their corporate governance structure and how they were modified and improved in response to arising requirements of corporate governance in the EBS.

Here directors and executive managers of various banks have indicated that these mechanisms have witnessed improvements during the past few years as a part of the

95 Opinions from these Interviews with these five participants were not incorporated in analysis except for indication of their lack of knowledge. Because they do not know what corporate governance is? This included 1 participant from CBE, 1 board director and 2 executives from state banks and 1 executive from private domestic bank.
banking sector reform and the introduction of new banking law No. 88/2003 and other regulations such as credit worthiness rules and control instructions manual (CIM)\textsuperscript{96}.

However, it should be noted here that the case of Foreign banks is slightly different, because these banks have more mature internal governance mechanisms mandated by their head-quarters in branches all over the world.

Talking about our case, the bank has an in house corporate governance system ... Foreign banks know how to control their overseas business. In other words they come with their own systems ... which makes the overseas business goes in harmony with the whole organization. (Director, Foreign bank).

This category was observed through its properties internal control system and transparency. These are discussed as follows.

I. Internal Control System

An internal control system is in essence an internal governance system within a banking organization, it refers to a number of activities that represents the

\textit{Foundation for the safe and sound operation of banking organizations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organization will be met, that the bank will achieve long-term profitability targets, and maintain reliable financial and managerial reporting ... also help to assure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank's reputation} (BCBS, 1998:1).

A bank's system of internal control is a broad term that includes various functions such as: risk management, internal audit and compliance (BCBS, 2010). Indeed, an effective internal control system with its various components including risk management provides the foundations of a proper corporate governance system in banks (ibid).

Directors and executives have also agreed that "Internal control is a very essential foundation to good corporate governance" (Director, Foreign Bank).

\textsuperscript{96} The CIM was issued in late 2002, it consists of eight parts addressing the following issues: Part 1: authorization of establishment of new banks and registering with the CBE; Part 2: appointment of the external auditors, basis of auditing banks financial statements, internal control and auditing committees; Part3: regulatory issues regarding capital adequacy, investment in other companies and reserve requirement of 10% of foreign currency deposits with the CBE; Part 4: credit extension limits, credit classifications, capital lease, and mortgage; Part5: permissible banking activities, money laundering and e-banking; Part 6: official forms for information required by the CBE; Part7: basics of preparing financial statements and valuation basis; Part8: Regulation of foreign currency transactions, foreign currency exchange bureaus, statistics requirements and foreign transactions.
Directors and executive managers indicated that since the 1990s bank scandals, a number of actions were taken to improve the control environment within banks. The first is to implement organizational restructuring towards more centralization and higher accountability. "Improving Internal Control included making the control in the hands of the head office and not the branches" (Executive Manager, Private bank). The second aspect is related to utilizing modern Information technology Solutions (CBE, 2008). The CBE has considered this an essential part of the banking sector reform. This was considered a step towards improving internal control because these systems have built in effective internal control measures. Participants from the banking field agree that deploying information technology systems have contributed to enhancing internal Control. "IT system is the tool to internal control now" (CBE official). The third aspect was the introduction of the compliance function which focuses on "whether all divisions and departments of the bank are following the central bank regulations and the internal bank policies and procedures or not" (Executive manager, Private bank).

This indicates that most of banks have embarked on modifying their internal control systems and as such this also reflects improvement in their corporate governance arrangements.

Board members and executive managers from Foreign banks raise additional aspects, of relation to internal control, which is the internal auditing function. Here, participants from the international auditing firms have indicated that

Internal audit in many banks, is a matter of recurring audit with no scientific and clear methodology in most of banks internal auditors do not exactly know what an Internal auditor have to do; still other banks confuse it with internal control. (Executive Manager, international Auditing Firm).

This refers to state, private domestic and Arab banks. Foreign banks are not meant here because they are already advanced in this aspects following there headquarter systems.

This was almost absent from responses of State, Arab and some Private Banks. Indicating that the internal audit function was not properly included in the internal control systems improvements.

Here, the opinion of external auditors is quite important because the banking law 88 / 2003 has assigned most of the burden of assessment of a bank's internal control to external auditors, who are required to express an opinion about the effectiveness of a bank's internal control system.
This explains why many participants did not mention internal auditing function. This also confirms the need for capacity building and training that most of banks should undertake in the field of internal audit and internal control in general.

Participants from the banking field have also talked about risk management\textsuperscript{100}. Indeed, this is one of the crucial areas within the context of the Egyptian banking. Improving risk management has been a basic aspect in the banking sector reform, especially after the 1990's credit failures and the associated NPLs. The CBE has produced a set of guidelines addressing the evaluation of credit-worthiness of clients in both the retail and corporate banking sectors (CBE Credit Rules, 2005)\textsuperscript{101}. Moreover, the CBE has issued other guidelines that regulate recording and reporting of credit operations. It should be noted here that external auditors are responsible to verify the degree of bank compliance with proper risk management guidelines. Here, auditors indicated that some banks are self-disciplined and adhere to the CBE credit guidelines and beyond such as Foreign banks; while, many of the other banks focus on achieving legitimacy by fulfilling the formality but not the practice.

\begin{quote}
Look, everything related to the CBE is implemented, credit committee, audit committee, risk management policy, but again the focus is the form over the substance, if we have a strong regulator all the problems would have been solved (Senior executive manager, International Auditing firm).
\end{quote}

Moreover, risk management practices differs from one bank to another, this can be understood because the EBS is composed of a great diversity of banks in terms of size and capabilities. Some banks apply advanced techniques of risk management such as

\textsuperscript{100} However, those participants did not indicate that risk management is a part of internal control system but as a standalone function. This is acceptable and reflects just a difference in classification (BCBS, 2010). Indeed, risk management is a part of the overall internal control system, as "internal control are designed among other things to ensure that each key risk has a process or other measure to help contain or control that risk" (BCBS, 2010:16) As such, classification of risk management as part of the overall internal control system of the bank or as a standalone system does not affect it from being part of banks' internal corporate governance mechanism.

\textsuperscript{101} Although the issuance of such rules is considered external corporate governance mechanism initiated by the CBE. The focus here is to discuss the response of individual banks and how these guidelines affected banks' internal corporate governance mechanisms.
Basel II\textsuperscript{102} "we are fully compliant with Basel II" (Executive manager, Foreign bank). While, other banks aim complying within two years "we will adopt Basel II in the future .... Say 1 to 2 years" (Executive Manager, State Bank). Indeed, it can be concluded that risk management practices have improved within the EBS in response to the reforms initiated by the CBE\textsuperscript{103}.

Finally, another important aspect of risk management related to the corporate governance of banks is the extent to which corporate governance quality of borrowers play a role in the loan granting decision. Here board directors and executive managers have clarified that borrowers' corporate governance does not play an explicit significant role in such decision. However, some corporate governance related aspects are taken into consideration such as the succession planning. In general, loan granting is a judgmental process with some corporate governance related factors included but implicitly "corporate governance of client is an advantage but not the principal criterion, still not in a formal manner. Other criteria used to judge the credit-worthiness of the borrower are cash conversion cycle, reputation, financial performance" (Executive manager, private bank).

Notably, the evaluation of the clients' corporate governance in an explicit manner would occur overtime, with the development of the corporate governance concept within various types of banks that can subsequently promote the concept amongst their clients.

\textsuperscript{102} Contradiction in the CBE dealing with Basel II was observed, the central bank officials are well convinced that if Basel II is adopted, credit would be hardly obtained "If we apply Basel II, no one will be able to lend a pound" (CB Official). Still, the CBE is seeking technical assistance from Europe Central Bank in this respect. This can be explained that CBE is trying to appear legitimate in the eyes of the international banking community.

\textsuperscript{103} Close supervision is still required to achieve real rather appearance changes that lead to better corporate governance.
II. Transparency

The concept of transparency refers to the ease with which an outsider is able to make a meaningful analysis of a company and its actions. Transparency refers to both information about the financial position of the company and to non-financial issues, such as the direction the company is taking, its strategic objectives, and so on. (It also refers) to the clarity about the way that decisions are reached or processes carried out (Coyle, 2003:22; author brackets).

Indeed, transparency is a crucial factor to "well functioning of corporate governance" (Solomon and Solomon, 2004:119). In the context of the banking industry, "Transparency is essential for sound and effective corporate governance... it is difficult for shareholders, depositors, other relevant stakeholders and market participants to effectively monitor and properly hold accountable the board and senior management when there is insufficient transparency" (BCBS, 2010:28).

Moreover, transparency importance is unrelated to the ownership structure of the bank (State v. Private) or whether it is listed on not (BCBS, 2010). As such transparency is a prerequisite of good corporate governance practices in any banking organization.

The Basel committee (BCBS, 2010) recommends that banks should disclose

material information on the bank's objectives, governance structure and policies (in particular the content of any corporate governance code or policy and the process by which it is implemented), major share ownership and voting rights and related parties transactions. The bank should appropriately disclose its incentive and compensation policy... the bank should also disclose key points concerning its risk tolerance / appetite (without breaching necessary confidentiality), with a description of the process for defining it... timely public disclosure is desirable on a bank's public website, in its annual and periodic financial reports or by other forms (BCBS, 2010:29).

Within the context of the EBS transparency is a highly questioned issue. This is because the EBS is considered as one of the most opaque banking sectors worldwide (Huang, 2006). Furthermore, the level of transparency was also criticized by researchers such as El-Shazly (2001) who indicated that during the late 1990s, the deterioration of transparency was a reason behind many bank failures. Here he mentioned that

\[104^{*}\] Egypt was ranked at 106 out of 177 countries based on the bank disclosure index. This index is a composite index... created for individual banks by measuring the level of details. Banks provide their published accounts on seventeen core disclosure items, and then the rational index is created by averaging the index values of individual banks in a country weighted by their assets (p.4)
publication of banks' financial statements were only made at the end of the year and was unsatisfactory. For instance published income statements were exceedingly brief with a couple of lines on revenues and expenditures which do not show the amount of provisions. He added that although the CBE had taken measures to tackle this problem by mandating monthly publishing of banks’ financial results "market transparency is so far insufficient...with vital information missing such as non-performing loans, average rates of return, and risk-weighted capitalization" (ibid:9).

Participants from auditing firms has expressed similar opinion regarding the insufficiency of transparency and disclosure within the EBS “we still have a transparency problem in the banking sector, a major area of weakness here lies in the disclosure regarding the risk profile of banks” (Executive Manager, Big 4 Audit Firm).

In response to the transparency problem the CBE has issued the rules of preparation and presentation of financial statements for banks and basis of recognition and measurement in 2008. Although these rules are serious steps from the CBE towards improving transparency in the EBS, the impact cannot be evaluated because these rules came into effect only in 2010.

Transparency within the banking sector are not limited only to their financial results, CBE officials have indicated that banks are also opaque in relation to providing transparent and clear information about their products, fees and interest rates. “In response to identifying malpractices in disclosing true information about bank products, the CBE has required banks to properly disclose the true information to clients and reminded that non-complying banks will face troubles mentioned in banking law 88” (CBE, official)

Another indicator of opaqueness is the practice of most banks to avoid disclosing the remuneration of board members and key executives. “Definitely, we never publish the remuneration of board members or any other employee, this is confidential” (Board
director, Private bank). This indicates the rejection of governance culture prevailing in the banking sector. This will be discussed in more detail in the next section "Hawkamat Al-Sharikat culture".

Indeed transparency is a mechanism of corporate governance as above mentioned in this section. The regulator puts forth to improve transparency but still the practice needs enhancement. However, change is taking place towards better disclosure (especially non-financial) this can be observed by the increasing trend of having bi-lingual websites of banks as indicated by the survey. As 57% of banks have websites but with varying content "Improvement is taking place, Foreign banks have given good examples of websites, now every bank has a web-site compared to 2 years ago transparency is better" (Executive manager, Foreign bank).

5.3.9 Hawkamat Al-Sharikat Culture

The open category Hawkamat Al-Sharikat Culture has emerged from the analysis of the responses to the following questions:

Q11: To what extent the bank insists on good corporate governance in the credit operations?

Q12: What impact does the Egyptian business culture have on corporate governance of banks?

Hawkamat Al-Sharikat is the Arabic translation of corporate governance. This translation has appeared during the early 2000, although there was a dispute around the proper Arabic translation of corporate governance, the term Hawkamat Al-Sharikat was widely accepted "following its endorsement by Al-Azhar university in Cairo, a renowned authority on the Arabic language" (World Bank, 2010) [online].

This would clearly indicate that the term is relatively recent to the Arab world. On the other hand culture refers to "a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that
has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (Schein, 2004:17). Indeed, this definition implies that culture can be formed within a group. Here a group refers to a collection of people who have enough history sharing, meaning that not every collection of people can be considered a group. Here, history sharing is what permits the formation of culture in the group (ibid). With shared assumptions between group members, and as the culture formation proceeds, assumptions become “taken for granted” in a way that determines

much of the group’s behaviour, and the rules and norms are taught to newcomers in a socialization process that is itself a reflection of culture ... shared assumptions will form a paradigm, with more or less central governing assumptions driving the system, much as certain genes drive the genetic structure of human DNA (ibid: 22).

Culture includes some essential elements, in addition to history sharing namely: structural stability, depth, breadth and patterning or integration (ibid). Schein (2004) explains that structural stability occurs when group culture is formed “it becomes not only shared but also stable .... It is our major stabilizing force and will not be given up easily. Culture survives even when some members ... depart. Culture is hard to change .... Provides meaning and predictability (ibid: 14). Depth is another feature of culture, this implies that when culture is formed it becomes “unconscious part of a group and is therefore, less tangible and less visible ... (it) is more deeply embedded” (ibid; Author brackets). While, culture breadth is another feature that indicates the development of culture; breadth means that culture “covers all of a group's functioning....is pervasive; it influences all aspects of how our organization deals with its primary task, its various environments, and its internal operations” (ibid). Finally patterning or integration is the feature concerned with achieving stability; it implies that when culture is developed it integrates into a larger paradigm “culture somehow implies that rituals, climate, values, and behaviours tie together into a coherent whole; this patterning or integration is the essence of what we mean by culture” (ibid).
Leadership

Leadership is a concept closely related to culture "They are two sides of the same coin; neither can really be understood by itself (ibid: 10). This occurs because culture is what defines, who will be accepted as a leader within our organization, in terms of "who will get the attention of followers" (ibid: 11). On the other hand one of the main tasks of leaders is to "create and manage culture .... the unique talent of leaders\(^{105}\) is their ability to understand and work with culture; and that it is an ultimate act of leadership to destroy culture when it is viewed as dysfunctional" (ibid).

Bearing in mind the abovementioned definition of Hawkamat El-Sharikat and culture. The open category Hawkamat El-Sharikat Culture was observed through its properties role of reformers, role of public governance and rejection of corporate governance culture. This is discussed as follows.

I. Role of Reformers

As indicated above leadership is crucial to culture formation. So, one can argue that if Hawkamat El-Sharikat culture is existing, leaders of the EBS would have had a role in building this culture. Moreover, if this culture exists this would imply the existence of "a mode of behaviour of the principal players in governance systems i.e. (Stakeholders) that must reflect a deep and abiding commitment to governance- a commitment which comes naturally" (Dey, 2001:4). However, this culture does not exist. This is indicated clearly by the central bank officials who assured that Hawkamat El-Sharikat Culture is still developing and not yet established. The following quote indicates that building corporate governance culture is a long term objective that requires true and serious work by the EBS reformers especially the CBE "It is important to realize the enormity of the task ahead the central bank is working towards cultural change, as well as changing the

\(^{105}\) To distinguish between leadership from management or administration one can argue that leadership creates and changes culture, while management and administration act within a particular culture (Schein, 2004:11).
way it does business to bring the EBS up to speed" (CB official). Another CB official indicates “The CBE is engaged in institutional reform and it is important to realize that corporate governance is a long term goal rather a short term objective” (CB Official).

This indicates that cultural formation is very much related to leadership action. Here the CBE plays the role of the leader not only the regulator, by starting corporate governance reforms that would eventually lead to corporate governance culture. In essence, this implies dysfunctional cultures change, such as rejection of corporate governance culture and rejection of learning by board members. Indeed, the formation of corporate governance culture will occur overtime.

The cultural aspect of reform can be observed in the restructuring of state-owned banks for instance. Here, restructuring started by replacing top management at these banks with more competent figures, who are able to lead culture change in their banking organizations, including creating a corporate governance culture.

As such new management of state owned banks has started this culture change, with strengthening of controls as previously mentioned. “They consider that internal control is his eye on the bank, this is their first move when they became in charge of their banks” (EBI official). In addition they enhanced internal control systems including risk management, internal audit and compliance functions. In essence this not only requires the change of the systems, but also the change of the culture where these new systems are operating. The relatively low corporate governance quality in state banks is partially blamed on the cultural aspect, as this corporate governance quality is still prevailing although systems have changed.

Moreover, executive managers from various banks have indicated that currently banks do not explicitly consider corporate governance quality of borrowers “currently we do not include corporate governance quality of the client as a criteria of the assessment for loan granting “(Board director, Private Bank). Indeed, given the absence of corporate
governance aspects from the loan granting assessment criteria would indicate the lack of corporate governance culture or *Hawkamat El-Sharikat culture* because corporate governance commitment is too far from occurring naturally. At the same time, this imposes a great challenge to the CBE as the sector leader as well as individual banks leaders to contribute towards building this culture at their respective organizations.

II. Role of Public Governance

Public governance is the concept related to "the process by which a society organizes its affairs and manage itself" (Manning and Kraan, 2006 cited in UN 2007:2). It implies that the supply of public goods occur in agreement with democracy, transparency and accountability principles (UN, 2007). As such good public governance is "participatory, transparent and accountable... Encompasses State institutions and includes private sector and civil society organizations" (ibid: 4). "Global standard setters such as the IMF and the World Bank regard public governance as the bedrock for successful Stable economies" (Euromoney, 2006: 16). As such it is unsurprising to find arguments supporting that "Good public governance helps underpin good corporate governance...thus in the eyes of the United Nations, public governance and corporate governance are interdependent mutually reinforcing concepts" (ibid).

According to Euromoney survey (2006) some participants clearly link corporate governance to public governance. These participants explain the relation as follows:

*Poor public governance negatively impacts corporate governance ...it simply cannot be a case of do as I say, not do as I do. Financial markets don't exist in isolation. It's hard to lecture the private sector if the public sector is not operating in an exemplary way ... There's no point adhering to international standards in finance if you're doing that in a vacuum. This needs to be done in the context of political and economic development (ibid).*

Another participant in Euromoney survey (2006) adds

*Poor public governance hurts corporates...Corporate governance is part and parcel of the overall governance of the community, the state and the region. There could not be good private corporate governance without having good public governance. They are two wings by which a society flies to transparency, proficiency, development and maintenance of the moral foundation of the society. They are tightly coupled that's why the view must be holistic, not partial...a company can't be required to be a transparent and as well governed as it is in the west while having regimes that are at least 200 years away from the west (ibid).*
Within the context of the EBS, board directors and executive managers expressed a similar opinion regarding the impact of public governance on corporate governance of the banking sector “In the EBS, having good corporate governance will take long time. Still we have problems of the political influence, corruption, lack of transparency” (Director, State Bank). In reference to public governance a government official stated: “Is it the same if I am applying corporate governance in a country such as Switzerland and when I apply it in Ethiopia” (EBI official).

Indeed, this reflects that participants consider poor public governance in Egypt as obstructing the evolution of BCG. Because, political influence as previously discussed affects CBE independence and consequently its creditability because “a central bank subject to...political influences would likely not be credible” (Bernanke, 2010:2). Obviously, this means lower ability to lead culture change.

In conclusion this reflects the absence of Hawkamat El-Sharikat culture and indicates a dysfunctional culture that works against corporate governance, due to poor public governance. However, participants see that more time and additional institutional reforms can improve public governance that can lead the way to the formation of Hawkamat El-Sharikat culture.

III. Culture of Corporate Governance Rejection

The third characteristic pertaining to Hawkamat Al-Sharikat is the prevailing culture of corporate governance rejection amongst bank clients and bankers themselves. This was observed amongst directors and executive managers who mentioned that in the short-term corporate governance is a competitive disadvantage especially in the retail banking

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106 This issue has been previously discussed in section 5.3.3 Upgrading supervision.
segment\textsuperscript{107}. As such one could argue that these banks currently reject corporate governance because they consider it will adversely affect their business.\textsuperscript{108}

Another indicator of the rejection of corporate governance culture is the general opinion stated by executive managers from various banks regarding that corporate governance of clients is not explicitly a requirement for loan granting. This signifies that even if banks are with assessment of clients’ corporate governance, rejection of this culture amongst clients prevent them of doing this.

Furthermore, board directors and executive managers from various banks have identified that rejection of \textit{Hawkamat Al-Sharikat culture} amongst clients is evident; as other cultures are prevailing amongst bank clients such as “secrecy culture” that works against the leaders’ effort to develop \textit{Hawkamat Al-Sharikat Culture}. “Lately, we introduce some changes to our account opening application form. Now we are looking for more information such as other banks the client is banking with, average salary, club membership s assets owned etc. …. You cannot imagine the problems and complaints received because of the new application form, people were unhappy giving information (Executive managers, private bank).

Clearly, clients have a dominating secrecy culture. Another board director stated “\textit{secrecy culture adopted by most of Egyptians, emerge from the lack of trust and confidence between the citizen and the government}” (Director, Foreign Bank). Even bankers’ themselves have this secrecy culture as they reject disclosing board members’ and key executives’ salaries.

\textsuperscript{107} See section 5.3.4 of this chapter
\textsuperscript{108} This is not the case for some banks such as Foreign banks driven by the corporate governance culture prevailing at their Foreign headquarters which refuses to compromise long-term competitiveness and soundness with short-term profits “According to our standards we never get into competition through reducing our conditions in favour of having a low quality client …. However, there are other banks in the market that choose to be more flexible …. This will turn to be a NPL and they will regret it!! (Executive Manager, Foreign bank).
Moreover, as previously shown board members have the culture of education rejection. This also contributes to oppose the efforts to build corporate governance culture.

In conclusion, this can reveal a rejection of corporate governance culture, which needs an enormous effort from banking leaders and the Egyptian government to change the current dysfunctional culture of corporate governance rejection.

Figure 5.1 summarizes the open categories discussed in this chapter in relation to their observed properties and related interview question (s).
<table>
<thead>
<tr>
<th>Category</th>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Governance Identity</td>
<td>Q1: To what extent does the bank's ownership identity affect its quality of corporate governance practices?</td>
<td>Q5. On what basis does a bank consider corporate governance reform?</td>
</tr>
<tr>
<td>Laws and Regulations</td>
<td>Q2: To what extent do laws and regulations effectively promote corporate governance in banks?</td>
<td></td>
</tr>
<tr>
<td>Upgrading Supervision</td>
<td>Q3: To what extent does corporate governance affect competitiveness of the bank?</td>
<td>Q11: To what extent do banks insist on client's corporate governance in credit operations?</td>
</tr>
<tr>
<td>Bank Corporate Culture</td>
<td>Q4: What are the mechanisms used by the CBE to enhance bank's corporate governance practices?</td>
<td></td>
</tr>
<tr>
<td>Corporate Boards</td>
<td>Q6: What bodies play an important role in bank's corporate governance?</td>
<td></td>
</tr>
<tr>
<td>Internal Control Systems</td>
<td>Q7: Whose interests does bank's corporate governance mechanisms protect?</td>
<td></td>
</tr>
<tr>
<td>Transparency</td>
<td>Q8: What role does the board of directors have in corporate governance of banks?</td>
<td>Q9. How does this role affect?</td>
</tr>
<tr>
<td>Modifying Internal C.G. Mechanisms</td>
<td>Q10: What are the internal governance mechanisms that the bank utilizes?</td>
<td>Q13: How does this basis determine the risk management policy of the bank?</td>
</tr>
<tr>
<td>Current Practices</td>
<td>Q11: To what extent do banks insist on good corporate governance of the bank in credit operations?</td>
<td>Q14: How does this extent affect the bank's accounting standards adopted enhance transparency?</td>
</tr>
</tbody>
</table>

Figure 5.1 The Nine Open Categories That Emerged In The Open Coding Stage
5.4 Conclusion

This chapter has shown the detailed analysis of the semi-structured interviews (A). Indeed, the questions were formulated in the light of previous chapter (survey analysis) as well as the informal conversations with participants. Following grounded theory procedures data collection and analysis has proceeded simultaneously. Interviews' transcripts and notes were read thoroughly, followed by in depth analysis to discover concepts and develop open categories in terms of their properties and dimensions. Analysis was accompanied by developing theoretical memos and visual representation of emerging concepts this has helped to increase theoretical sensitivity of the researcher and assist in focusing on theoretically significant concepts in subsequent interviews. Constantly, the emerging concepts after each interview was compared to other cases as well as data analysis was based on question-by-question analysis this was thought to provide an objective comparative method and keep the focus on theoretically significant concepts.

The results of question analysis were presented in this chapter demonstrating how asking questions lead to developing open categories in terms of their properties and dimensions. Some questions contributed in developing more than open category. This chapter has developed nine open categories: corporate governance identity, laws and regulations; upgrading supervision, bank competitiveness, pressure groups, interests' protection, board effectiveness in corporate governance, modifying internal corporate governance mechanisms and Hawkamat Al-Sharikat culture. These open categories are carried forward to the axial coding stage with the purpose to rearrange them in a different way, discovering how they can be related axially.
CHAPTER SIX

Axial Coding

6.1 Introduction

This chapter presents the application of the paradigm model and the identification of five main categories based on the categories that emerged through open coding\(^\text{109}\). Each main category subsumes a number of open categories presented in the previous chapter. Indeed, the output of this chapter is the foundation of further analysis, the identification of the core category and formulation of the substantive theory\(^\text{110}\).

Axial coding is the second analytical stage of grounded theory applied in this thesis. The main purpose of axial coding is "reassembling data that were fractured during open coding" (Strauss and Corbin, 1998:124). The process of axial coding focuses on relating open coding categories together to "form more precise and complete explanations about phenomena" (ibid). It demonstrates how the open coding categories can be arranged and linked together to form a coherent overall system (Howell, 2000). As such, axial coding focuses on identifying the phenomenon that can explain "what is going on" (Strauss and Corbin, 1998:125). Then this phenomenon is related to other categories in a way that gives it precision (ibid). This occurs by applying a coding paradigm that specifies a phenomenon "in terms of the conditions that give rise to it; the context in which it is embedded; the actions/interactions strategies by which it is handled; and the consequences of those strategies" (Strauss and Corbin, 1990b:91).

Indeed, in axial coding the phenomenon stands as the category and the other components of the paradigm model are sub-categories. These sub-categories should answer questions pertaining to the phenomenon studied such as when, where, how and

\(^{109}\) See chapter five.
\(^{110}\) Discussed in the next chapter.
with what consequences this phenomenon takes place; and as such help to contextualize the phenomenon (Strauss and Corbin, 1998). Toward this end, axial coding relates structure\textsuperscript{111} with process\textsuperscript{112} to capture some of the complexities in real life (ibid).

It must be noted that open coding and axial coding are not necessarily sequential, in this thesis open and axial coding occurred both concurrently and sequentially. As both open and axial coding can "proceed quite naturally together" (Strauss and Corbin; 1992). Open coding aims to develop categories in terms of their properties and dimensions. But axial coding aims to develop categories in terms of their relationships to enhance the density of the substantive theory, which will be articulated in the next chapter (Selective coding and Substantive theory).

6.2 An Application of the Paradigm Model

As previously mentioned in this chapter, axial coding reassembles data fractured through open coding, as such the nine open categories developed through open coding procedures (as shown in chapter 5) are sub-summed into five categories in axial coding, each represents a component of the paradigm model. Table 6.1 shows the main categories of axial coding and their corresponding open categories.

\textsuperscript{111} Structure denotes the conditions which created "problems, issues, happenings, or events pertaining to a phenomenon" (Strauss and Corbin, 1998; 124)

\textsuperscript{112} Process denotes the action/interaction of those involved with the phenomenon in response to certain problems and issues (ibid).
### Table 6.1 Axial Coding main Categories

<table>
<thead>
<tr>
<th>Main Categories (Axial coding)</th>
<th>Open Categories (Open coding)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drivers</td>
<td>• Pressure Groups</td>
</tr>
<tr>
<td></td>
<td>• Interests Protection</td>
</tr>
<tr>
<td>Obstacles</td>
<td>• Bank Competitiveness</td>
</tr>
<tr>
<td></td>
<td>• Board Effectiveness in corporate governance</td>
</tr>
<tr>
<td></td>
<td>• Hawkamat Al-Sharikat Culture</td>
</tr>
<tr>
<td>Reform Strategies</td>
<td>• Upgrading Supervision</td>
</tr>
<tr>
<td></td>
<td>• Modifying Internal CG Mechanisms</td>
</tr>
<tr>
<td>Contextual factors</td>
<td>• Corporate Governance Identity</td>
</tr>
<tr>
<td></td>
<td>• Laws and Regulations</td>
</tr>
<tr>
<td>Evolving BCG practices</td>
<td>• Interests Protection</td>
</tr>
<tr>
<td></td>
<td>• Pressure Groups</td>
</tr>
<tr>
<td></td>
<td>• Corporate Governance Identity</td>
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<tr>
<td></td>
<td>• Laws And Regulations</td>
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<td></td>
<td>• Upgrading Supervision</td>
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<tr>
<td></td>
<td>• Bank Competitiveness</td>
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<tr>
<td></td>
<td>• Board Effectiveness</td>
</tr>
<tr>
<td></td>
<td>• Hawkamat Al-Sharikat Culture</td>
</tr>
<tr>
<td></td>
<td>• Modifying Internal BCG Mechanisms</td>
</tr>
</tbody>
</table>

Indeed, the utilization of the paradigm model aims to link and develop categories through “asking questions and the making of comparisons...In axial coding the nature of the questions we are asking are really denoting a type of relationship” (Strauss and Corbin 1990b:107). This means that the focus is laid on “posing questions in terms of the conceptual labels themselves, and how one category might be related to another” (ibid:108). Then with the question in mind “we then return to our data look for evidence, incidents, and events that support or refute our questions” (ibid). As such the following sections will demonstrate the axial coding procedures through discussing how open categories are linked and subsumed into main categories, what questions were asked to link these categories together, demonstrating the application of the paradigm model.

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113 All open categories contribute to the phenomenon of evolving BCG practices.
6.2.1 The Phenomenon

According to Strauss and Corbin (1990b) a phenomenon "is the central idea, event, happening, about which a set of actions/interactions is directed at managing or handling ... we identify the phenomenon by asking questions such as: what is the data referring to? What is the action/interaction all about" (P.100). Simply it answers the questions of "what is going on here?" (Strauss and Corbin 1998:130)

The answer to this question is Evolving BCG practices. This has been evident through data collection and analysis during the open and axial coding. Indeed, the phenomenon of Evolving BCG practices subsumes all the open categories identified through coding of data collected in the semi-structured interviews (A) namely: corporate governance identity, laws and regulations, upgrading Supervision, bank competitiveness, pressure groups, interests protection, board effectiveness in corporate governance role, modifying internal BCG mechanisms and Hawkamat Al-Sharikat culture as shown in table 6.1.

Simply, the category of evolving BCG practices refers to the gradual change that is occurring in the BCG practices within the EBS. The change is evident in open categories that refer to processes such as upgrading supervision and modifying internal BCG mechanisms. The change is gradual because there are two structural forces working against each other. Firstly, there are drivers of BCG (pressure groups and Interests protection). Secondly, there are obstacles (Board of director's effectiveness, bank competitiveness, Hawkamat Al-Sharikat culture) that obstruct the occurrence of BCG. This interplay is embedded within a particular context, framed with laws and regulations and the various corporate governance identities within the EBS. Within this complex setup, BCG can only evolve or change gradually according to the impetus of drivers and the ability to overcome obstacles. Indeed, change has to be gradual rather than radical.
The following sections will highlight how other components of the paradigm model, contributes to the evolving BCG practices phenomenon.

6.2.2 Causal Conditions

Causal conditions refer to events, incidents or happenings that lead the occurrence of the phenomenon (Strauss and Corbin, 1990b) or influence the phenomenon (Strauss and Corbin, 1998: 131). Accordingly, identifying the causal conditions requires asking the following question.

What are the incidents, events or happenings that lead the occurrence of the phenomenon?

The main category drivers answers this question. Here drivers indicate the incidents that caused or derived the phenomenon of Evolving BCG practices. Indeed, this category is based on two open categories that emerged in the open coding stage namely: Pressure Groups and Interests Protection.

Pressure Groups had derived the evolution of BCG practices in Egypt through the power each of these groups exerted on the EBS to develop their corporate governance practices. Participants from the banking sector have indicated that the CBE as the sole regulating authority of the banking sector in Egypt has exerted pressure on banks to develop their corporate governance practices through introducing corporate governance related articles in the new banking law 88/2003. Moreover, the CBE exerted pressures on the EBS through issuing corporate governance related banking regulations such as credit-worthiness evaluation guidelines and supervision and control manual. On the other hand, the CBE has exerted a normative pressure through the EBI. This normative pressure focused on raising awareness of the EBS regarding the importance of developing BCG practices. Obviously, the EBI is currently preparing a corporate governance code for the EBS as indicated by its officials.

Auditing firms are another pressure group that participated in the evolution of the bank's corporate governance practices. As the new banking law has assigned the responsibility
of periodical assessment of banks' internal control environment and disclosure practices as indicated by the regulatory framework governing banks. Indeed, this has put additional pressure on banks to comply with corporate governance related requirements spelled out by the banking law 88/2003. This also accounts partially for deriving the evolution of BCG practices.

International organizations have also contributed to the evolution of banks' corporate governance practices through consideration of banks' corporate governance quality in donation decision making. Yet, another international organization such as Basel Committee has contributed through the emphasis on corporate governance as a crucial aspect in banking as expressed in its corporate governance guidelines, and other related aspects such as Basel I and II. Compliance to these guidelines has not only been supported by the CBE. But also gradually has developed to be a requirement to integrate with the banking industry at the international level.

The Egyptian government contributed to the evolution of banks' corporate governance practices; this occurred through the Ministry of Investment efforts to reform corporate governance in Egypt as an important measure to make the investment climate more attractive. The Ministry of Investment has issued the first ECOCG (2005); this code was not only applicable to banks but also assigned banks and other financial institutions the responsibility to promote corporate governance amongst their clients, through adding clients' corporate governance as a criterion of loans' evaluation process.

\[114\] The two auditors shall prepare their report on auditing the bank's financial statements, according to the law and the Egyptian auditing standards, provided that their report shall elucidate whether the transactions audited thereby violate any of the provisions of this law, its executive regulations, or the decrees issued for its enforcement at least twenty one days before the convening of the general assembly, they shall send to the central bank a copy of their report .... Comprising the following: (A) The method of evaluating the bank's assets and estimating its commitments and obligations, (B) the extent of adequacy of the internal control system in the bank; (C) The extent of adequacy of the provisions formed against any decrease in the value of assets .... (D) Any regulatory or supervisory standards that the board of directors of the Central Bank requires the auditors to verify bank's compliance with (EBI, 2006:IV)

\[115\] This code is a voluntary code, with some of its principles compulsory on listed companies.
Finally, the stock market has contributed to the evolution of this phenomenon through adding some corporate governance principle to the listing/delisting rules, as such enforcing listed banks to comply with these rules.

Indeed, the above mentioned groups have induced the evolution of corporate governance practices of banks, especially, the pressures of the CBE and auditors that aims depositors' protection. Banks have to comply with the CBE requirements to achieve banks' legitimacy. While, the normative pressures exerted by international organizations, the ministry of investment and the EBI are still building-up and is not powerful as the CBE's pressures.

Interests' protection is another deriving aspect of the BCG phenomenon. Bank directors and executive managers have indicated that amongst the top interests protected by corporate governance systems are the shareholders, who have primacy as owners, especially with the high prevailing ownership concentration ratios within the EBS. As such, serving and protecting their interests are not only a fiduciary duty of the board of directors and management but a means of achieving legitimacy towards shareholders.

In the like manner, depositors are one of the most important interests protected by corporate governance as indicated by bank directors and executive managers. This has gained momentum as part of the wide EBS reform program that addressed a number of aspects including corporate governance. Especially after weak corporate governance related banks' failures during the 1990's; putting corporate governance on the top of the CBE's reform priorities in order to protect depositors as indicated by CBE officials. It must be noted here that protecting depositors through compliance with related laws and regulations is essentially the prerequisite to achieve legitimacy from the CBE.

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^116 It should be noted that the impact of the stock exchange is not powerful as the CBE as indicated by participants that corporate governance requirements stipulated by the banking law and regulations which are enforced by the CBE are wider in scope than corporate governance requirements identified by the latter as previously mentioned.

^117 Indeed, compliance with all applicable laws and regulations related to corporate governance is essential to achieve legitimacy from the CBE perspective as shown above.
perspective. As such *interests' protection* has contributed as well in the evolution of BCG practices.

**6.2.3 Context**

According to Strauss and Corbin (1990b), context represents "The particular set of conditions within which the action/interaction strategies are taken to...respond to a specific phenomenon" (p.101) They are specific sets of conditions that intersect dimensionally at this time and place to create the set of circumstances or problems to which persons respond through actions (Strauss and Corbin, 1998). As such asking the following question would identify the context within which the phenomenon is taking place.

*What are the set of conditions that affect banks' strategies and responses in relation to their evolving corporate governance practices?*

Generally, context refers to "surrounding associated with phenomenon" (Cappelli and Sherer, 1991: 56). These surroundings play a crucial role in determining the pace and the degree of organizational change (ibid.). As such contextual factors can include internal as well as external elements. The contextual factors category sub-sums the two open categories Corporate Governance Identity and Laws and Regulations. The former represents the *internal element*, while the latter represents the *external element*.

On the internal contextual factors, corporate governance identity delineates a main property pertaining to the phenomenon of evolving BCG practices. In other words, corporate governance identity shapes banks' corporate governance practices. Basically, each of the four corporate governance identities (Foreign, Private Domestic, Arab, State) determined previously in chapter five affects the way or strategy of handling and changing BCG practices.
As discussed in open coding, three elements determine the corporate governance identity firstly; the degree of management control\textsuperscript{118} which affects the degree to which a bank can enforce internally certain rules such as those corporate governance related. For instance, tight management control at foreign banks is associated with a relatively better corporate governance practices compared with state-owned banks where management control is more lose. This is because foreign banks have better corporate governance rules enforced on all employees through tight management control. The second element of corporate governance identity is competence of board directors and executive managers of the bank, who hold the responsibility to design and run corporate governance systems. As such the more competent they are the better corporate governance practices will be and the easier a bank adopts corporate governance requirements. This also affects how successful the bank will be in designing appropriate corporate governance strategies and implement them successfully. While, the third element of a bank's corporate governance identity is the organizational perception of corporate governance. Banks consider BCG to appear legitimate in the eyes of the CBE and shareholders. As such this also constitutes a part of the context where evolving BCG phenomenon is embedded. In essence the organizational perception of corporate governance affects the strategies towards handling the bank’s BCG practices.

External contextual factor is represented here by \textit{laws and regulations} which represent the regulatory framework governing the banking sector. The changes to the regulatory framework with the introduction of the new banking law 88/2003 have included the introduction of corporate governance related issues, although on implicit basis\textsuperscript{119}. It was observed that banks corporate governance practices are basically affected by codes

\textsuperscript{118} Refers to "the means by which the actions of individuals or groups within an organization are constrained to perform certain actions while avoiding other actions" (\textit{Encyclopaedia of Management, 2009:510}).

\textsuperscript{119} The term corporate governance has been completely absent from Laws and regulations governing the Egyptian banking sector. Although some aspects are corporate governance related. For instance the banking Law 88/2003 require banks to form an audit committee.
especially issued to the banking industry. As such none of the bank directors or executives mentioned the ECOCG (2005), although it addresses banks amongst other companies. Meanwhile, the issue of enforcement was an important aspect that determines the degree of compliance with corporate governance requirements. Therefore, laws and regulations shape the phenomenon of evolving BCG practices through the corporate governance scope within the regulatory framework and the degree of its enforcement. This is why the CBE officials have been conservative on endorsing a compulsory corporate governance code as they know the significant change regulations can introduce to the banking sector.

In conclusion, corporate governance identity and Laws and regulations constitute the context where the phenomenon of evolving BCG practices is embedded. Indeed, they both affect how each bank draw its strategic response to arising BCG requirements. This comprises the very basis of variation in BCG practices between banks.

### 6.2.4 Intervening Conditions

According to Strauss and Corbin (1990b), intervening conditions are "broader structural context pertaining to a phenomenon". Intervening conditions "act to mitigate or otherwise alter the impact of causal conditions on phenomenon" (Strauss and Corbin, 1998: 131).

As such identification of the intervening conditions can take place by asking the following question:

**What are the conditions that mitigate or alter the impact of causal conditions on the evolving BCG practices within the EBS?**

The main category *Obstacles* refers to the crucial factors that diminish or modify the impact of the casual conditions (*Pressure groups and Interests’ protection*) on the phenomenon of evolving BCG practices within the EBS. As such casual conditions and intervening conditions can be seen as opposing each other. On one hand, casual
conditions are pushing BCG to evolve; while on the other hand the intervening conditions are obstructing this evolution.

The main category obstacles subsume three open categories developed through open coding namely: Bank Competitiveness, Board of Directors Effectiveness and Hawkamat Al-Sharikat Culture. According to Strauss and Corbin (1998) intervening conditions can emerge from “micro or macro-level conditions” (P.132). Here both bank competitiveness and board of directors’ effectiveness represent the micro intervening conditions, while, Hawkamat Al-Sharikat culture represents the macro intervening condition. This can be further discussed as follows.

Competitiveness\textsuperscript{120} in the context of this study stands as an obstacle in front of some banks to adopt corporate governance. More precisely, banks giving primacy to achieve higher short-term profits adopt strategies that are inconsistent with adopting good corporate governance. These banks perceive BCG as a condition against achieving their success and as such competitiveness. Indeed, this affects the bank’s BCG practices, as they choose to be less stringent in terms of their corporate governance practices in order to attract low creditworthy customers that are normally rejected by banks with proper corporate governance practices\textsuperscript{121} and consequently achieve greater market share. In essence, long-term oriented banks maintain stringent corporate governance practices and prefer to lose this type of risky business in favour of more stability and safety. This is more evident in the retail banking segment rather than corporate banking segment.

Board of directors’ effectiveness has shown to greatly affect BCG practices as indicated by the participants from the banking field, because the board has the ultimate responsibility of setting BCG strategies (BCBG, 2010). According to bank directors and

\textsuperscript{120} Bank competitiveness represents the resultant of strategies than an organization utilizes to achieve the “best possible strategic” objective (Cunliff, 2008). It also represents an organizational value that determines the targets an organization wants to achieve and how. This affects the image of the organization in the eyes of its stakeholders.

\textsuperscript{121} These banks sacrifice short term profits that can be achieved through relaxing corporate governance; they prefer to achieve long term success and safety.
executives, board effectiveness in corporate governance role can alter BCG practices. Obviously, the degree of board effectiveness determines the extent to which the board is engaged in setting, approving and overseeing BCG strategies and policies. Participants have indicated that three major aspects affect board effectiveness in corporate governance: firstly, the degree of formalization of corporate governance strategies and policies through incorporating them in an in-house corporate governance code; as well as the degree of utilization of board level specialized committees to help the board in fulfilling its corporate governance role. Secondly, the degree of board members’ corporate governance competence that enable them of fulfilling their corporate governance responsibilities. Thirdly, the degree of board members’ independence that enable them to make objective judgment and avoid potential conflict of interests. As such in the context of the EBS low board members’ competence and independence as well as low degree of corporate governance formalization lead to board ineffectiveness in their corporate governance role. This means that board ineffectiveness currently obstructs the evolution of BCG practices.

_Hawkamat Al-Sharikat culture_ is another obstacle that mitigates the impact of the causal conditions (Pressure Groups and Interests Protection) on the phenomenon. As previously mentioned, _Hawkamat Al-Sharikat culture_ does not yet exist within the EBS. It is still developing as indicated previously by CBE officials. The process of cultivation of corporate governance culture is at work. However, building _Hawkamat Al-Sharikat culture_ is currently opposed by other factors such as the already established cultures of corporate governance rejection and secrecy. In addition to the prevailing low level of public governance. This indefinitely obstruct the evolution of BCG. Consequently, these factors alter the effect of causal conditions.

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122 Such as audit, nomination, remuneration and corporate governance committees.
6.2.5 Action / Interactional Strategies and Consequences

According to Strauss and Corbin (1990), action / interactional strategies component of the paradigm model is "evolving in nature ... can be studied in terms of change over time ... done for some reason—in response to or to manage a phenomenon (Strauss and Corbin, 1990: 104). Moreover, action / interactional strategies are affected by the conditions (causal, intervening and contextual) (Strauss and Corbin, 1998).

Thus identifying of the action/ interactional strategies requires asking the following question:

What are the action / interactional strategies adopted by various actors of the EBS in relation to BCG and within the causal, intervening and contextual conditions?

The main category of Reform Strategies answer this question by demonstrating the action/ interactional strategies of various banks as well as the CBE in response to phenomenon of evolving BCG practices under the conditions mentioned in the previous sections. As such the main category of Reform Strategies subsumes two open categories of modifying internal corporate governance mechanisms and upgrading supervision as shown in table 6.1. Both banks responses and the CBE response are discussed as follows.

Obviously, banks’ action /interactional strategies are outlined and framed within the interplay between the causal conditions (Pressure Groups and Interests Protection), the intervening conditions (Bank Competitiveness, Board Effectiveness, and Hawkamat Al-Sharikat Culture) and the contextual conditions (Corporate Governance Identity and Laws and Regulations). Notably, these three types of conditions represent the structure where the BCG phenomenon is embedded.

In general, bank directors and executives have indicated that the response (action) of banks in relation to the phenomenon was to modify their internal BCG mechanisms. This is indicated by the main category reform strategies shown in table 6.1. However, given the above mentioned complex structure of conditions that set the framework in
which the phenomenon is taking place. A range of action/interactional strategies emerged to handle the phenomenon. Indeed, various bank types (Foreign, Private Domestic, Arab, State) are affected differently by the structural conditions.

Figure 6.1 presents the Action Choice Matrix that determines the strategy followed by every bank type to deal with the phenomenon of BCG on the basis of the impact of intervening conditions\(^{123}\) on a particular bank type as well as its corporate governance identity. It should be noted here that corporate governance identity can lead to classifying various types of banks on a continuum from low to high commitment to BCG\(^{124}\). Finally, the matrix assumes that all banks are equally required to comply with BCG laws and regulations.

\(^{123}\) *Bank Competitiveness, Board Effectiveness, and Hawkamat Al-Sharikat Culture*

\(^{124}\) Management control, Board directors and executives' competence, organizational perception of corporate governance are the three properties that explain the corporate governance identity of banks as previously discussed in the open coding chapter 5. If management control is tight, board directors and executives are competent. The bank is likely to be highly committed to BCG and when it seeks legitimacy in the eyes of the CBE and its shareholders, it does so by real compliance to BCG requirements. Within the EBS Foreign banks exemplifies this type. On the other end of the continuum if the bank has lose control and incompetent directors and executives, the bank is likely to be less committed to BCG. However, the bank still needs to achieve legitimacy of the CBE and shareholders. The only way then is to conceal or disguise its non-compliance.
As shown in figure 6.1, bank modification of its internal corporate governance mechanisms range from compliance to concealment. Here, the compliance or concealment is in relation to the corporate governance requirements set by the applicable laws and regulations. Obviously, the pressure of the laws and regulations is the most powerful pressure as indicated by various bank directors and executives. Because with laws and regulations comes the enforcement and coercion and the possibility of punishment.

Figure 6.1 indicates that Foreign banks have a committed corporate governance identity reflecting tight management control and high staff competence and a need to achieve shareholders' and the regulator legitimacy. As such, these banks have high commitment to BCG and are least affected by the intervening conditions. These banks are naturally complying with laws and regulations because their Foreign headquarters adopt a stricter corporate governance structures than that required by Egyptian banking.

Domestic private banks come in the second place, they have relatively committed corporate governance identity, but here these banks are more susceptible to the effect of intervening conditions, but with serious desire to expand and a need to achieve legitimacy in the eyes of both the shareholders' (current and potential) and the CBE. As such most of these banks adopt a compliance strategy.

Arab banks come in the third place; they have a less committed corporate governance identity, with higher susceptibility to the intervening conditions. But still these banks want to achieve their legitimacy to the regulator, as such they are more likely to conceal or disguise their non-conformity through pronouncing their compliance but without changing the essence. For instance, some banks do have an audit committee (legal

125 Relatively tight controls and competency of directors and executives compared to Foreign banks

126 Have relatively lose control and less competency of directors and executives compared to Foreign banks
requirement) but with no effective role in external or internal auditing functions. These practices are significant among this type of banks.

Finally, State banks have the least committed corporate governance identity\textsuperscript{127}, are subject to high impact of intervening conditions and the majority achieve their legitimacy by modifying their corporate governance mechanisms but not its essence. Most of the state banks adopt a concealing strategy.

Therefore, banks respond to the various conditions framing the phenomenon, by either complying or concealing non-compliance with corporate governance requirements set by laws and regulations.

On the other hand, the second part of the Reform Strategies category, is the upgrading supervision. In fact, supervision reform reflects an important component of the action/interaction strategies adopted to manage the phenomenon examined. Upgrading supervision is affected by the structural conditions where the phenomenon is located. Obviously, it is affected by the international organizations pressures that determine the norm of accepted level of corporate governance practices such as BCBS (2005:2010) guidelines. This is noticed in the second stage of the banking sector reform that witnessed more emphasis on “reviewing and firmly applying international governance rules for banks” (CBE, 2009: D).

Also, upgrading supervision is expected to witness an increase in the scope of examination to include more good governance rules to achieve better “interests protection” of depositors and indeed shareholders (ibid). Indicating that upgrading supervision is the strategy adopted by the CBE in response to or to manage the phenomenon of the evolving BCG phenomenon.

Moreover, through the supervision upgrading the CBE interacts with the strategies adopted by banks to manage the phenomenon. As such this upgrading includes

\textsuperscript{127} Lose controls and low directors and executive competence compared with Foreign banks.
increasing the corporate governance content within the regulations governing the EBS, improving the methodology of examination process and increasing the examination frequency. With the upgrade coming into effect the efficiency and effectiveness of supervision process are likely to increase. Thus, highly committed banks will then try to maintain their compliance status. Less committed banks concealing their non-compliance are likely to be discovered and will accordingly be asked to take corrective actions to comply with the corporate governance regulations. Indeed, this process will lead to more evolution of BCG practices and further BCG reform to address new issues discovered.

Consequences

Consequences are the outcomes of actions/interactions; they are also the result of failures of persons or groups to respond to the situation created by actions/interactions (Strauss and Corbin, 1998). Therefore they can be identified through the following question:

What are the consequences of the strategies adopted by various actors within the EBS in response to the phenomenon of evolving BCG practices?

As mentioned above, banks within the EBS either adopt compliance or avoidance through concealment strategies. Basically banks adoption of these strategies aimed to achieve pragmatic legitimacy to the regulator and shareholders. The consequence of these strategies is that banks enhance their legitimacy to the CBE and their shareholders. As such, they are perceived as better serving the interests of their shareholders, the CBE and depositors. However, as some banks are concealing their non-conformity, while the CBE is upgrading the supervision function; these concealments are likely to be discovered. As such these banks will be required to take corrective actions with the aid of the CBE. Meaning that further BCG reforms will be initiated, leading to the continuous evolution of BCG practices within the EBS.
6.3 The Paradigm Model of Evolving BCG Practices within the EBS

Axial coding aims to bring grounded theory analysis together to form an integrated unit (Howell, 2000). The paradigm model is an analytical tool that assists to “systematically gather and order data in such a way that structure and process are integrated” (Strauss and Corbin, 1998: 128). An application of axial coding through the paradigm model is identified in this thesis through:

A. The reform pressures exerted by the CBE to improve BCG practices are the principal driver of BCG phenomenon. These reforms are derived by the need to improve BCG practices to offer shareholders and depositors better protection and minimize potential conflict of interests.

B. The change created by reform pressures aiming interests' protection of shareholders, CBE and depositors leads to the evolution of BCG practices.

C. The Egyptian banking laws and regulations, as well as various corporate governance identities (Foreign, Private Domestic, Arab, State banks) contextualize the evolution of BCG practices.

D. Bank directors' ineffectiveness in their corporate governance role, the perceived negative relation between BCG and bank competitiveness and the immaturity of Hawkamat Al Sharikat culture are obstructing the evolution of BCG practices.

E. Banks adopt different strategies to handle the arising BCG requirements introduced by laws and regulations, this include:

   I. Following a compliance strategy with enforceable corporate governance requirements either naturally or by reforming their corporate governance structures.

   II. Following an avoidance strategy through concealing their non-compliance.
F. The CBE upgrades its supervision function as the main mechanism to enforce BCG and derive banks towards more compliance.

G. The outcomes of these strategies (compliance or concealment) are enhancing of legitimacy of banks to their shareholders and the CBE. Hence, improving the perception that banks are better serving their shareholders and depositors and the regulator. In addition to inducing further BCG reform.

In more specific terms, the casual conditions and phenomenon are the drivers and evolving BCG practices. The context is the contextual factors. The intervening conditions are the obstacles. While the actions / interactional strategies are represented by Reform Strategies. Finally the consequences, are enhancing banks’ legitimacy, improved serving their shareholders, depositors and the regulator. In addition to bringing further BCG reform.

Figure 6.2 summarizes the paradigm model; indeed, it shows how axial coding has accounted for both the structure and process. The former is denoted by the drivers, contextual factors and obstacles. While, the latter is denoted by reform strategies. The interplay between both the structure and process leads to the consequences of enhancing banks’ legitimacy, improved serving their shareholders, depositors and the regulator. In addition to bringing further BCG reform.
6.4 Conclusion

This chapter demonstrates axial coding within grounded theory procedures. The main purpose of axial coding was to reassemble data fractured during open coding (Strauss and Corbin, 1998). It demonstrated how the nine open categories that emerged during open coding can be further arranged and linked together to form a coherent overall system (Howell, 2000). It developed five main categories; here the focus was on developing categories on the basis of their relationship not in terms of their properties and dimensions. Main categories developed through axial coding are: Drivers, obstacles, reform strategies, contextual factors and evolving BCG practices. These categories were related together by means of the coding paradigm (Strauss and Corbin, 2019).
1990; 1998). An application of the paradigm model included identifying the phenomenon studied, the context where it is embedded, the intervening conditions, the causal conditions, actions/interactional strategies and their consequences. More precisely drivers are the causal conditions, evolving BCG practices in the phenomenon; while obstacles represent the intervening conditions; reform strategies are the action/interactional strategies that occurred with the consequences of enhancing banks' legitimacy, improved protection of shareholders' and depositors in addition to bringing further corporate governance reform. Indeed the phenomenon represents the category and other components of the paradigm model are sub-categories.

This chapter is based on the semi-structured interviews (A). Axial coding and open coding are not necessarily sequential, in this thesis both occurred concurrently and sequentially. Indeed the purpose of each was different, open coding aimed at developing categories in terms of their properties and dimensions; while axial coding aimed at developing categories in terms of their relationships. Axial coding was aided by the means Bank Action Choice Matrix and the evolving BCG practices model. Both contributed in visualising the application of the paradigm model. The evolving BCG practices model clarifies how the structure and process are integrated in axial coding. The output of this chapter is the foundation of further data collection (semi-structured interviews (B)) and analysis within the selective coding stage as discussed in the next chapter.
CHAPTER SEVEN

Selective Coding and Constructing the Substantive Theory

7.1 Introduction

This chapter presents selective coding which is the final coding stage within grounded theory. Indeed, selective coding is based on the output of open and axial coding presented in chapters five and six. Selective coding is

the process of selecting the core category, systematically relating it to other categories, validating those relationships .... the core category is the central phenomenon around which all the other categories are integrated (Strauss and Corbin, 1990b: 116).

In open coding, analysis focus on generating categories in terms of their properties and dimensions; while, in axial coding, the focus is on categories development in terms of their relationships.

"However, it is not until the major categories are finally integrated to form a larger theoretical scheme that the research findings take the form of theory" (Strauss and Corbin, 1998:43). Thus, selective coding process focus is on "integration and refining of categories" (ibid). It should be noted that theory integration does not differ from axial coding, but it is done at a higher level of abstraction (Strauss and Corbin, 1990b). Thus axial coding develops the basis for selective coding (ibid). Axial coding draws all parts of the analysis together and it is the pivot or the axis of theory building; while "selective coding identifies the core category and develops it in relation to subcategories" (Howell, 2000: 184).

This chapter firstly, identifies the core category in terms of its properties and dimensions. This occurs based on data collection and analysis of the semi-structured interviews (B). This is made explicit through the analysis of the results of the
interviews. Secondly, and also through the analysis of the semi-structured interviews (B), this chapter links and verifies the relationship between the core category and other subcategories earlier presented in axial coding. Here this occurs again by means of the paradigm model. Finally, this chapter concludes by presenting the substantive theory.

7.2 Analysis of Semi-Structured Interviews (B) Results and Identification of the Core Category

Selective coding aims at identifying the core category and developing it in relation to subcategories (Howell, 2000). Here, axial coding provides the basis of selective coding procedures (Strauss and Corbin 1990b). Obviously, axial coding main categories Drivers, obstacles, reform strategies, contextual factors which were linked to the phenomenon of evolving BCG practices, were all developed with the core category in mind (Howell, 2000). Selective coding continues the coding process started during axial coding, where the relatively unclear conceptual relationships between the main categories built during axial coding stages are refined during selective coding (Howell, 2003a). This occurs using a combination of both inductive and deductive thinking, in which the grounded theorist moves between asking questions, generating hypotheses and making comparisons (Strauss and Corbin, 1990b: 131).

In applying selective coding in this thesis, the open categories that emerged during the open coding: corporate governance identity, laws and regulations, upgrading supervision, bank competitiveness, pressure groups, interests' protection, board effectiveness, modifying BCG internal mechanisms and Hawkamat Al-Sharikat culture were subsumed into axial coding main categories and linked with the phenomenon of evolving BCG practices. Axial coding main categories were drivers, obstacles, reform strategies and contextual factors stand as causal conditions, interviewing conditions, actions/interaction and context respectively.

This is very much related to the pattern observed in the axial coding stage and verified at the selective coding by the aid of semi-structured interviews (B) carried-out in accordance to discriminate sampling techniques.
Here, identifying the core category occurs by asking questions such as "What is the main analytical idea presented in this research? What does all the action/interaction seem to be about" (Corbin and Strauss, 1990: 15 cited in Howell, 2003a: 13). The answer to which is BCG Reform. As such, the questions can be paraphrased as: How BCG reform is initiated and how the action/interaction of various banks jointly with CBE respond to BCG reform and how this interplay adds impetus to further BCG reform within the EBS to achieve better protection of recognized stakeholders (shareholders, depositors and regulator) and maintaining safety and soundness of the EBS.

Although, BCG reform was in mind during previous coding stages (open and axial coding), the proposed relationships between the core category and other subcategories has not been confirmed but in the selective coding stage. This occurred by the aid of the semi-structured interviews (B). Where the main properties of the core category BCG reform are identified and its relationships with other subcategories are verified. The next section demonstrates how the analysis of the semi-structured interviews (B) has contributed towards this end, giving the theory more specificity.

7.2.1 Analysis of the Semi-Structure Interviews (B) results

Discriminate sampling is the type of theoretical sampling associated with selective coding (Strauss and Corbin, 1990b). "Its aim is to maximize opportunities for verifying the story line and relationships between categories" (ibid). Therefore, a number of statements were developed to elucidate the main category of BCG reform and validate its relationships with other subcategories. These statements were put along a Likert scale of one to five. Participants were asked to express the extent of agreement to each statement. Indeed, the semi-structured interview method was thought as more relevant here than a survey because it gives the chance to talk with participants and as such
enrich the process of development of and selection of the core category and linking it with other sub-categories.

Strauss and Corbin (1999b, 1998) recommend that in selective coding the aim is to integrate the categories...to form a theory, validate the integrative statements of relationship...thus sampling now must become very directed and deliberate, with conscious choices made about who and what to sample in order to obtain needed data...In discriminate sampling, a researcher chooses the sites, persons, and documents that will maximize opportunities for verifying the story line, relationships between categories (Strauss and Corbin, 1990b: 187).

To achieve that, eight statements were developed to define the main properties of the core category and illustrate the logical relationships between the core category of BCG reform and other subcategories developed previously in axial coding. To which participants will state their agreement or disagreement. While, this method is structured, this was intended because of the directed nature of the discriminate sampling. However, it is a semi-structured interview and both the researcher and the participants can discuss and raise important issues on ad-hoc basis. This is useful to verify that the main categories’ properties and dimensions had been adequately discovered (Benaquisto, 2008:806). In addition, this help in verifying the story line expressed by the eight statements.
The eight statements used are shown in Table 7.1.

Table 7.1: The Statements Used in the Semi-Structured Interview (B)

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<table>
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<tr>
<td>1.</td>
<td>Bank corporate governance has witnessed reform due to pressures from the CBE, international organizations and the Egyptian government.</td>
</tr>
<tr>
<td>2.</td>
<td>Bank corporate governance reform aims at minimizing potential conflict of interests between shareholders, depositors and the regulator (CBE); hence better serving their interests.</td>
</tr>
<tr>
<td>3.</td>
<td>Bank corporate governance reform is an ongoing process taking place through the CBE's supervision to enhance the safety and soundness of the banking sector according to the international best practices.</td>
</tr>
<tr>
<td>4.</td>
<td>Variability of bank corporate governance practices is related to the differences in the corporate governance identity of the bank (management control, competence and organizational perception of corporate governance) as well as the limited corporate governance scope of applicable laws and regulations.</td>
</tr>
<tr>
<td>5.</td>
<td>Further reform should address the challenges of boards' ineffectiveness in corporate governance, market myopia (short-termism) and corporate governance cultural immaturity within the EBS.</td>
</tr>
<tr>
<td>6.</td>
<td>Banks respond to evolving corporate governance requirements resulting from reform either by compliance or disguising of non-compliance.</td>
</tr>
<tr>
<td>7.</td>
<td>The outcome of the compliance or disguising of non-compliance strategies in response to corporate governance reform includes enhancing bank's legitimacy towards the regulator and shareholders; improvement in interests protection and further corporate governance reform.</td>
</tr>
<tr>
<td>8.</td>
<td>The impact of corporate governance reform will vary between Foreign, Private Domestic, Arab and State banks within the EBS given their different corporate governance identities and qualities.</td>
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Participants for these semi-structured interviews (B) were approached from the original 34 participants already interviewed in semi-structured interviews (A).

If fact, the researcher has already planned to use focus groups at the stage of selective coding, however, this was impossible because of confidentiality issues, as all participants did not agree to talk in the presence of others.

Gaining the consent of participants to participate in the semi-structured interviews (B) again was challenging; out of the 34 participants 14 gave their consent. However, all efforts were directed to have participants from the four bank types (Foreign, Private, Arab, State). Details of those participants are presented in Appendix 6.
This is important to verify the fitness of the story to respondents from various banks.

Finally, the raw data from the semi-structured interview (A) were revisited when necessary. The results of the responses to the statements can be summarized as shown in figure 7.1.\(^{132}\)

![Figure 7.1 Summary of the Responses to the interview (B) Likert Scale Statements](image)

To demonstrate clearly the results of the interviews, the results shown in figure 7.1 are converted to straight (Yes/No)\(^{133}\) answers. This can be shown in figure 7.2.

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\(^{132}\) S1 stands for statement one, S2 for statement 2 and so on.

\(^{133}\) Strongly disagree, disagree are equivalent to (No), While, No view, Agree and strongly agree answers are equivalent to (Yes).
Indeed, the results of the interviews shown above in figure 7.2 contributes to both the determination of the core category in terms of identifying its properties and dimensions as well as verifying its relationship with other sub-categories. This can be shown in details in the following section.

7.2.2 Identification of the Core Category

As previously mentioned, the core category BCG reform represents the central phenomenon of the study, selection of data and the creation of other categories have been processed with BCG reform in mind. However, the role of selective coding is to determine the core category in terms of its properties and dimensions as well as relate other sub-categories to the core category (Strauss and Corbin 1998). Certainly, open and axial coding provides the basis of selection of the core category. But it is the selective coding that determines its characteristics and verifies its relationships with other sub-categories to achieve integration necessary for theory development. Towards this end,
the results of the semi-structured interviews (B) have played an important role. Table 7.2 represents the main properties and dimensions of the BCG reform. This is based on the interview statements that contribute to identification of a particular property as shown in table 7.2 as well as the participants' opinions expressed and agreed on by most of the participants indicating their theoretical significance. This can be shown as follows.

134 Bank directors and executives, in addition to central bank officials who participated in semi-structured interviews (B).
Table 7.2 Identification of the Properties and Dimensions of the Core Category Based On Semi-Structured Interviews (B)

<table>
<thead>
<tr>
<th>Item</th>
<th>Core Category (BCG Reform) properties</th>
<th>Interview Statement</th>
<th>Interpretation and further discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>Nature of the BCG Reform</td>
<td>No. 1</td>
<td>Bank corporate governance has witnessed reform due to pressures from the CBE, international organizations and the Egyptian government.</td>
</tr>
</tbody>
</table>
|      | Ongoing                               |                     | -statements analysis show a consensus from the participants that the corporate governance phenomenon occurring in the EBS can be best described as reform.  
-To participants BCG reform, means restructuring the corporate governance structures within the regulatory framework. This occurs by introducing the unified banking law No.88/2003 as mentioned previously in open coding.  
Essentially this includes giving the CBE more autonomy to enable it of supervising the banking sector effectively. Though this independence was questioned earlier, a CB official commented that "I agree with you that independence is not 100% as it should be, but corporate governance wise, the previous reform steps and the current ones cannot be ignored, we cannot say that reform is not taking place" (CB official).  
This confirms that corporate governance is in the reform stage. The CBE indicates this as well "Recent years have witnessed considerable efforts by the Central Bank of Egypt to increase the soundness and to modernize the Egyptian Banking Sector... CBE has made considerable progress in developing its supervisory framework... CBE complied with most of the Basel Core Principles for Effective Banking Supervision... In support for the efforts done to modernize this sector, further reforms need to be introduced... Enhancing and monitoring corporate governance in all banks"(CBE,2003). Later the CBE (2008) introduced the second stage of the... |
Bank corporate governance reform is an ongoing process taking place through the CBE’s supervision to enhance the safety and soundness of the banking sector according to the international best practices.

100% of the participants agreed to this statement. This clarifies that BCG reform is ongoing, which means that it is dynamic to match the nature of the banking industry. Moreover, BCG reform should be carried out in terms of the international standards to maintain safety and soundness of the banking sector.

"You have to know that BCG is a must, now, especially after the financial crisis it represents the rules of the game, all banks everywhere, must adopt the best practices such as Basel principles" (Foreign bank Director).

Banking sector reform “After the successful completion of the first stage of the banking reform plan, launched in September 2004, the Central Bank started to make the necessary preparations for the second stage (2009-2011). The reform program at this stage is centred on a number of pillars... (5) reviewing and firmly applying international governance rules for banks and CBE” (ibid)

This indicates that corporate governance is under continuous scrutinizing, arising issues are dealt with reform programmes. However, this occurs in a progressive way, the second stage of reform will now turn to firmly apply international governance rules, while the first stage only focused on enhancing and monitoring corporate governance rules, with no reference to the international rules.

This also implies that currently, the corporate governance practices are not up to the international standards, as such the second stage aims at improving these evolving practices.
Objectives of the BCG reform

1. Serve selected stakeholders and minimize potential conflict of interests between them.
2. Enhance the safety and soundness of the banking sector.

<table>
<thead>
<tr>
<th>Bank corporate governance has witnessed reform due to pressures from the CBE, international organizations and the Egyptian government.</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% of the participants have agreed to this statement. This indicates that the main influential parties behind the reform, especially the CBE, try to enhance soundness and safety of the EBS, and avoid the type of scandals occurred in 1990s. This is also confirmed in the following quote: &quot;The previous failures occurred in the 1990s are due to weak corporate governance practices. Now the global financial crisis stressed on corporate governance, we have to continue what we started and firmly&quot; (CBE official). Meanwhile, serving depositors is a major objective of the CBE. This is consistently observed in open coding (interests protection), axial coding (Drivers) and in the CBE second stage of reform objectives &quot;Add to this a number of qualitative standards that ensure the sound performance of banks and the safety of depositors' funds&quot; (CBE, 2008). Given the high concentration of ownership, comes the possibility of potential conflict of interests between shareholders and depositors in particular. As such a fundamental role of corporate governance in this context is to minimize potential conflicts by maintaining proper checks and balances that can prevent power abuse by shareholders or their agents. Especially that depositor is at an information disadvantage compared to bank insiders.</td>
</tr>
<tr>
<td>100% of the Participants have agreed on that BCG reform in the EBS aims minimizing potential conflict of interests between shareholders, depositors and the regulator.</td>
</tr>
</tbody>
</table>
| 3 | **Mechanisms of the BCG reform**  
  
  - **Supervision**  
  
    Bank corporate governance reform is an ongoing process taking place through the CBE's supervision to enhance the safety and soundness of the banking sector according to the international best practices | This was consistently observed during the open coding (Interests protection category) and in axial coding (Drivers category).  
  
    This clarifies that the overriding objective of the CBE from the BCG reform is to “enhance the safety and soundness” (S3, Semi-structured interview B).  
  
    Also, the CBE indicates that the second stage of reform will focus on firm application of international governance rules, while the first stage only focused on enhancing and monitoring corporate governance rules. “The reform program at this stage is centred on a number of pillars...(5) reviewing and firmly applying international governance rules for banks and CBE” (CBE,2008a).  
  
    Participants also confirmed that applying international corporate governance standards is crucial for sound and effective supervision that can maintain safety and soundness of the banking sector.  
  
    - This indicates that the main mechanism utilized by the CBE in implementing the reform and achieving its objectives is “...Bank corporate governance reform is an ongoing process taking place through the CBE’s supervision” (S4, Semi-structured interview B).  
  
    - This was previously mentioned in the open coding (Open category: Supervision Reform) as well as Axial coding (Reform Strategies category)  
  
    100% of the participants have agreed on this statement. This indicates that BCG reform results will definitely be affected by the context where the reform should be applied. As Foreign, |
<table>
<thead>
<tr>
<th><strong>Further corporate governance reform</strong></th>
<th>banks within the EBS given their different corporate governance identities and qualities</th>
<th>Private Domestic, Arab and State banks have different corporate governance identities; the implication of the reform on banks is normally different. Because with different contexts come the different courses of action and strategies to respond to reform requirements. This was duly observed in open and axial coding (<em>Modifying BCG internal mechanisms</em>) where banks either adopt a compliance or disguising of non-compliance strategies. Also, this was observed in axial coding (<em>Contextual Factors category</em>) which represents the context component of the paradigm model. Indeed, this creates the phenomenon of <em>evolving BCG practices</em>. That implies movement towards development of BCG practise through the operation of reform. The following quote reflects this meaning: &quot;what is happening is that reform affects all banks, but at the same time banks are different, despite that all banks have to implement the reform requirements some banks emphasis on the appearance rather the substance of conformance, so I agree with you&quot; (Bank Executive, Private Bank).</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>The outcome of the compliance or disguising of non-compliance strategies in response to corporate governance reform includes enhancing banks' legitimacy towards the regulator and shareholders; improvement in interests protection and further corporate governance reform</td>
<td>100% of participants agree to this statement, confirming that the outcome of BCG is enhancing banks' legitimacy, improvement of interests' protection and identifying of further BCG reform.</td>
</tr>
</tbody>
</table>
Based on the participants’ responses presented in figures 7.1 and 7.2 and the discussion presented in table 7.1. Properties of the core category BCG reform can be summarized as follows:

I. The Nature of BCG Reform:

SI: Bank corporate governance has witnessed reform due to pressures from the CBE, international organizations and the Egyptian government.

S3: BCG reform is an ongoing process taking place through the CBE's supervision to enhance the safety and soundness of the banking sector according to the international best practices.

The above mentioned statements have contributed to identification of the nature of BCG reform summarized as an ongoing process that takes place progressively. This means that the ongoing reform gains its impetus, continuity and progression based on the continuous scrutinizing from the CBE and the interactions of various banks to reform requirements.

II. Objectives of the BCG reform

SI: Bank corporate governance has witnessed reform due to pressures from the CBE, international organizations and the Egyptian government.

S2: Bank corporate governance reform aims at minimizing potential conflict of interests between shareholders, depositors and the regulator (CBE); hence better serves their interests.

S3: Bank corporate governance reform is an ongoing process taking place through the CBE's supervision to enhance the safety and soundness of the banking sector according to the international best practices.
The abovementioned statements have contributed to the identification of the objectives of the core category BCG reform as shown in table 7.2. These objectives can be summarized in serving the shareholders, depositors and the CBE. While international organizations have come into the play, with stronger normative pressures with what constitutes good corporate governance especially after the financial crisis. Therefore, the CBE have started to draw on the international corporate governance standards to initiate further reforms more than ever. In essence this contributes to occurrence of a type feed forward that initiates BCG reform and thus set the desired corporate governance practices expected from banks. Indeed, this lead to evolving of BCG practices.

III. Mechanisms of the BCG reform

S3: Bank corporate governance reform is an ongoing process taking place through the CBE's supervision to enhance the safety and soundness of the banking sector according to the international best practices.

As shown in table 7.2, the above mentioned statement contributes to identifying the mechanisms utilized by the CBE to enact the BCG reform, this mechanism is supervision. The supervision mechanisms are subject to continuous upgrading as previously shown in axial coding (Reform strategies category). This upgrading is based on the arising issues emerging during the course of supervision, where examination assesses the degree of compliance of the bank with the BCG requirements outlined by the regulatory framework. Non-compliance or the discovery of banks’ concealment of non-compliance leads to providing feedback to the CBE, thus providing information about areas that needs
further enhancement. At this point of time, further BCG reform may be initiated leading to further evolution of BCG practices as banks (especially those concealing their non-compliance) will have to take corrective actions regarding their BCG practices. Indeed, all banks (both already complying and those concealing their non-compliance) will have to respond to the new BCG requirements.

III. Impact of BCG reform

S7: The outcome of the compliance or disguising of non-compliance strategies in response to corporate governance reform includes enhancing bank's legitimacy towards the regulator and shareholders; improvement in interests' protection and further corporate governance reform.

S8: The impact of corporate governance reform will vary between Foreign, Private Domestic, Arab and State banks within the EBS given their different corporate governance identities and qualities.

The abovementioned statements have contributed to further identify the core category of BCG reform through determining its impact on evolution of the BCG practices within the EBS. This impact is affected by the context where the phenomenon is taking place (various banks), as such various corporate governance identities (previously discussed in open and axial coding) would not stop the reform from taking place, but every bank adapts itself to the reform requirements. This occurs by either compliance or concealing non-compliance. In essence, both actions will lead achieving legitimacy and the perception of serving recognized stakeholders. However, with tougher scrutinizing banks concealing their non-compliance will be discovered. The following quote clarifies this issue:

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If we have a strong regulator that effectively supervise banks, all corporate governance issues and other banking regulation aspects will be running smoothly. This is what the whole issue is about. To give you an example, you know the new traffic law, which comes into effect in 2007. As the law requires that the driver must fasten his seatbelt all time, this doesn’t happen. People rush to fix their seatbelts to avoid being penalized if a police officer stops them. On the other hand police officers only look at the seatbelt from outside the car; they never examine it. The result is that many drivers do fasten their seatbelts but they use non-conforming to standards cheap belts which do not function properly, but because police is looking for appearance, this happens although seatbelts can save lives. Recently, police has begun to be stricter, compliance begin to improve. Not because the driver is convinced that this is an important safety measure but because he will be discovered and penalized” (Bank Director, Private Bank).

This quote indicated that as corporate governance culture does not exist, it is the supervision function that can drive further compliance and improvement of BCG. Supervision will hence force banks towards more compliant status rather than disguising of non-compliance.

7.3 BCG Reform a System Perspective

As a matter of fact, open and axial coding have contributed towards the determination of the core category of BCG reform. The selective coding through the discriminate sampling has identified its nature, objectives, mechanisms and impact.

On the dimensions of the core category, the BCG reform process can be either feedback led or feed forward led. From the previous discussion and analysis shown in table 7.2, the BCG is feedback led based on the supervision function that scrutinize BCG practices and structure and provides the CBE with feedback about these practices. It is feed forward based as the CBE setting the objectives of BCG reform and further reforms not only on the basis of supervision outcomes but also based on international corporate governance benchmarks. This occurs because the overriding objective of the CBE is to maintain safety and soundness of the CBE. Post the financial arises central banks around the world has learned a tough lesson regarding
the importance of BCG reform, even in more developed countries, where corporate governance practices are assumed to be more mature. As such the CBE cannot ignore the international benchmark.

In fact, the properties and dimensions of the core category of BCG reform process indicate that it is a dynamic process interrelated with the environment where it is taking place. As such it involves the interaction between a number of actors including: CBE, banks, depositors, shareholders and international organizations. This interaction occurs as the BCG reform process receives input from the environment in the form of feedback on BCG practices and how it meets the objectives of various actors namely: shareholders and the regulator and indirectly depositors. Also, it receives input in the form of feed-forward from the CBE to determine reform future objectives in relation in corporate governance. It has outputs that include enhancing the legitimacy of banks towards their recognized stakeholders and hence perceived protection of their interests. In addition to further BCG reforms that arise either from feedback or feed-forward information, all leading to further evolving of BCG practices.

Obviously, this exemplifies a system. A system is defined as "group of interacting units or elements that have a common purpose" (Encyclopaedia of Management, 2009: 630). Systems can be either closed or opened. The former "refers to systems that have relatively little interaction with .... The outside environment" (ibid), the latter "refers to systems that interact with .... The outside environment" (ibid). As

---

135 When the supervision function discovers the non-compliance of some banks
136 When the CBE increase the scope of corporate governance regulations according to international best practices.
shown above the BCG reform system is a relatively open-system due to the interaction with the environment. The CBE feeds the system with BCG requirement to which various banks must comply. These requirements are either based on new requirements arising from international benchmarks and selected by the CBE as the proper course of actions (Feed forward), or based on the scrutinizing and examination of banks' extent of compliance with current corporate governance requirements as set by the CBE (Feedback). Indeed, both feed forward and feedback are examples of the interaction between the reform system and the environment.

The output of this system is generally the evolution of BCG practices. These practices interact with environment to achieve secondary outputs namely enhanced legitimacy, perceived protection of recognized stakeholders and further BCG reform based on the extent that the BCG practices achieves legitimacy and protection of recognized stakeholders.

Figure 7.3 demonstrates the BCG reform system and its various constituents as mentioned above. This can be summarized as follows:

1- Input: Feed Forward and Feedback BCG Requirements
2- Process: Supervision by CBE
3- Output: Evolving BCG practices
4-Environment: Recognized stakeholders and international banking community.
The above model is taken forward to the final stage of the selective coding, that aims to link the core category of BCG reform with other subcategories by means of Strauss and Corbin's (1990, 1998) paradigm model. This will show the bigger picture of BCG reform system upon which the substantive theory will be based.

7.4 Linking the Core Category to Subcategories

Linking the core category to subcategories within the selective coding can be achieved by means of the paradigm model (Strauss and Corbin, 1998). Indeed, developing the subcategories was the focus of the axial coding, selection of data and establishing of connections was done with the core category in mind (Howell, 2000). However selective coding has taken these subcategories namely: *Drivers, obstacles, contextual factors, reform strategies* and verified their relationships with the core
category. This done by means of the Semi-structured interviews (B) statements and the accompanying comments by participants.

Table 7.3 The Application of the Paradigm Model to Verify Relationships Between the Core Category and Subcategories.

<table>
<thead>
<tr>
<th>Interview statement</th>
<th>Subcategory</th>
<th>Paradigm component</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bank corporate governance has witnessed reform due to pressures from the CBE, international organization and the Egyptian government.</strong></td>
<td>Driver</td>
<td>Causal Conditions</td>
</tr>
<tr>
<td><strong>Bank corporate governance reform aims at minimizing potential conflict of interests between shareholders, depositors and the regulator (CBE); hence better serving their interests.</strong></td>
<td>Reform Strategies</td>
<td>Action/Interaction Strategies</td>
</tr>
<tr>
<td>-Bank corporate governance reform is an ongoing process taking place through the CBE’s supervision to enhance the safety and soundness of the banking sector according to the international best practices.</td>
<td></td>
<td>Context</td>
</tr>
<tr>
<td>-Banks respond to evolving corporate governance requirements resulting from reform either by compliance or disguising of non-compliance.</td>
<td></td>
<td>Context</td>
</tr>
<tr>
<td><strong>Variability of bank corporate governance practices is related to the differences in the corporate governance identity of the bank (management control, competence and organizational perception of corporate governance) as well as the limited corporate governance scope of applicable laws and regulations.</strong></td>
<td>Contextual Factors</td>
<td>Context</td>
</tr>
<tr>
<td><strong>Further reform should address the challenges of boards' ineffectiveness in corporate governance, market myopia (short-termism) and corporate governance cultural immaturity within the EBS.</strong></td>
<td>Obstacles</td>
<td>Intervening conditions</td>
</tr>
<tr>
<td><strong>The outcome of the compliance or disguising of non-compliance strategies in response to corporate governance reform includes enhancing bank’s legitimacy towards the regulator and shareholders; improvement in interests protection and further corporate governance reform.</strong></td>
<td>Consequences</td>
<td>Consequences</td>
</tr>
</tbody>
</table>

More precisely, for each component of the paradigm model an equivalent statement or more represents the relationship between the core category and one of the subcategories. Table 7.3 shows the semi-structured interview statements verifying the relationship between the core category and the subcategories within the framework of
the paradigm model. It must be mentioned that verifying these relationships is based on the participants responses to the interviews statements shown in figure 7.2.\textsuperscript{137}

The application of the paradigm model to link the core category with other subcategories can be explained as follows:

I. Causal conditions of BCG reform (Drivers)

BCG reform arises due to the pressures exerted from various pressure groups namely the CBE, International organizations and the Egyptian government. Indeed, the degree of pressure varies with the source of this pressure. For example, the most powerful pressure comes from the CBE because it is the sole responsible authority on running and regulating the EBS and possesses the power to discipline non-complying banks.

BCG reform is initiated as well to achieve protection of interests of recognized stakeholders namely: depositors, shareholders and the CBE. Reform here is meant to minimize the potential conflict of interests between these parties that would jeopardize the overriding objective of the CBE to maintain the soundness and safety of the EBS. This is a top priority especially after the corporate governance related failures that occurred during late 1990s. Instability of the EBS is a major threat to the Egyptian Economy which is bank-based; as such a good governed banking sector cannot be compromised.

\textsuperscript{137} Figure 7.2 converts participants’ answers on a direct scale of (Yes/No) that clearly indicates the agreements of participants on the suggested relationships between the core category and other subcategories.
II. Contextual Conditions (Contextual factors)

BCG reform occurs within the current banking laws and regulations which sets the formal requirements related to BCG arrangements and practices. Earlier BCG reform introduced new BCG requirements, while, further BCG reform increases the corporate governance scope within the banking laws and regulations. BCG reform is imposed on banks with heterogeneous characteristics and corporate governance identities. As such bank responses to BCG reform are dissimilar as well.

III. Intervening conditions (Obstacles)

These are broader contextual factors that can alter /mitigate the impact of causal conditions on the phenomenon of BCG reform. Obstacles such as board of directors' ineffectiveness, short-termism and immaturity of Hawkamat Al-Sharikat culture. Are the factors that may alter the effect of drivers. Meaning that these obstacles interfere in the occurrence of BCG reform and indeed this have a bearing on the responses of banks and the outcome of these responses.

IV. Action / Interactional Strategies:

There are two sets of action/interactional strategies taking place within the EBS to manage the BCG reform phenomenon. The first action / interactional strategies are those adopted by various banks in response to BCG reform. These strategies are either compliance or disguising of non-compliance. The choice of the strategy is based on the bank's corporate governance identity, influence of obstacles on the bank commitment to reform requirements. The second set of action/interactional strategies is initiated by the CBE to manage BCG reform. Supervision represents a scrutinizing
mechanism that aims to enact the reform and enforce it. Moreover, based on the results of scrutinizing, feedback about the process is provided. The CBE reacts to arising issues by upgrading the supervision to achieve the BCG reform. Finally, the CBE upgrades supervision to achieve the objectives of reform in accordance to international corporate governance benchmarks.

V. Consequences

These are the output of the actions/interactional strategies. Basically the interplay between banks' strategies and the CBE strategy of upgrading supervision in relation to BCG reform is the evolution of BCG practices within the EBS. On one hand, banks' responses lead to enhancing their legitimacy to recognized stakeholders\textsuperscript{138}, being perceived as better protecting these stakeholders. While, increasing the efficiency and effectiveness of supervision brings about further BCG reform by the CBE.

To summarize, based on the agreement of participants on all the statements of the semi-structured interview (B) as shown in figure 7.2, application of the paradigm model in selective coding can be stated as follows:

1- BCG reform occurs due to reform pressures from the CBE, international organizations and the Egyptian government. However, the overriding objectives of reform are to minimize potential conflict of interests between

\textsuperscript{138} because, legitimacy is the corporate governance perception of all banks, as such both compliant banks and those disguising their non-compliance achieve legitimacy and consequently, they are perceived to better protect the CBE and shareholders' interests
shareholders, depositors and the regulator (CBE); hence better serving their interests.

2- BCG reform have different impact on banks based on the context, two contextual factors identify the nature of bank response to reform: its corporate governance identity (*Management Control, Employees Competence and the Organizational Perception of Corporate Governance*) in addition to the banking laws and regulations.

3- BCG reform should address the obstacles that hinder achieving outstanding BCG practices namely boards' ineffectiveness, short-termism and Hawkamat Al- Sharikat culture immaturity within the EBS.

4- Banks respond to arising corporate governance requirements addressed by reform, either by compliance or disguising of non-compliance. while, the CBE enhances and upgrades its supervision function as the mechanism of scrutinizing bank's compliance to reform requirements.

5- The outcome of the CBE's upgrading of supervision function as well as banks' compliance or disguising of non-compliance in response to BCG reform is the evolution of BCG practices, while enhancing banks' legitimacy towards the regulator and shareholders as well as improvement in perceived interest protection and further BCG reform.

More precisely, BCG represents the core phenomenon, with drivers as the causal conditions, contextual factors as the context, obstacles as intervening conditions, reform strategies as action/international strategies and evolving BCG practices as the consequence.
The relationship of the core phenomenon to subcategories can be depicted as shown in figure 7.3 this can be further summarized as follows.

**Figure 7.4 BCG Reform Model**

**7.5 Towards a Substantive Theory of BCG**

As the main objective of this study is discovering the nature of BCG phenomenon within the context of the EBS, the substantive theory developed in this study achieves this objective through determining the reasons that led the occurrence of the phenomenon, the contextual conditions in which it is embedded in, the responses of various parties related to BCG and the consequences of their actions / interactions.
Indeed, the substantive theory helps to promote our understanding of BCG in Egypt. This is important to be able to set strategies to enhance BCG practices of all banks, properly protect the depositors' and shareholders' funds, avoid corporate governance related bank failures and above all maintain the safety and soundness of the EBS.

The substantive theory is the result of coding, categorization and analysis of data systematically collected for this study through: a survey and two semi-structured interviews rounds. It reflects the opinions of bank directors and executives, CB officials and auditors. As such it is grounded on data obtained from substantive area (EBS). Finally as the substantive theory exemplify a system of BCG reform, it captures some of the complexities of the real life and demonstrates the interaction and interplay between BCG reform and the banking environment that leads to the evolution of BCG practices within the EBS.

The substantive theory can be summarized as follows:

(a) The substantive theory shows how BCG practices evolve from the ongoing process of BCG reform.

(b) It demonstrates that BCG reform occurs due to pressures from various banking sector stakeholders, with the most influential pressure coming from the regulator and shareholders given their respective powers.

(c) Improving BCG practices is thought to decrease potential conflict of interests between shareholders, depositors and the regulator. This is another reason to reform BCG.
(d) Contextual factors such as laws and regulations, and BCG identity (degree of management control, employees' competence and organizational perception) are determinates of how banks respond to BCG reform requirements.

(e) In the context of this study, BCG reform faces obstacles that may alter or mitigate its impetus; this includes board of directors' ineffectiveness, banks' short termism and immaturity of Hawkamat Al-Sharikat culture.

(f) Located in the study context, banks adopt two strategies in response to BCG reform, either compliance or avoidance by disguising non-compliance.

(g) The regulator manages BCG reform by the means of the supervision function and ongoing updating and improving the function by investing in people and systems and co-operating with other central banks.

(h) From a system perspective, BCG reform is given impetus by feedback regarding the achievement of reform objectives from both the regulator and recognized stakeholders perspective. As well as feed-forward by the regulator to enhance BCG by implementing internationally accepted practices.

(i) Ongoing BCG reform, induce banks to comply. While, supervision scrutinize compliance to address further BCG reforms. Meanwhile, the interplay with obstacles will eventually induce changes to occur, to cross these obstacles; this complex interplay will keep BCG practices evolving.

(j) The corporate governance model prevailing in the EBS is a pluralistic model that aims to serve recognized stakeholders: shareholders, depositors and the regulator.
7.6 Conclusion

On the basis of the previous chapter (Axial coding) this chapter presents the final coding procedure of the grounded theory. Two objectives were achieved in this chapter. The identification of the core category or the central phenomenon in terms of its properties and dimensions, additionally, validating the relationship between the core category and other subcategories. This took place through a second round of semi-structured interviews (B) based on the results of axial coding.

At this stage discriminate sampling took place, where sampling must become directed and deliberate. As such interviewees were asked to state their opinion regarding eight statements prepared carefully to verify relationships and developed the core category in terms of its properties and dimensions. Indeed, the core category of BCG reform was in mind during open and axial coding, but it became only developed and linked to other subcategories at the selective coding stage.

This chapter deployed a statement by statement analysis, as well as developed an overall frequency table and chart to clarify the results of interviews. However, notes taking during interviews enriched and supplemented the analysis, especially in what concerns developing the core category in terms of its properties and dimensions.

This was facilitated through constructing a table showing the property of the core category, the statement contributing to its development and the interpretation based on the participants opinions recorded during the semi-structure interviews B.
This was summarized and visualized through a BCG reform system model. Linking of the core category with other subcategories was undertaken by the means of the paradigm model.

Finally, this chapter presented the substantive theory of BCG which is the result of coding, categorization and analysis of data systematically collected for this study through a survey and two rounds of semi-structured interviews. It reflects the opinions of bank directors and executives, CB officials and auditors. As such it is grounded on data obtained from substantive area (EBS). The substantive theory exemplify a system of BCG reform, it captures some of the complexities of the real life by accounting for both the structure the phenomenon of BCG reform is embedded as well as the processes taking place. It shows the interaction and interplay between BCG reform and the banking environment that indeed leads to the evolution of BCG practices in the EBS.

Substantive theory shows that BCG reform is derived by both pressure groups who seek their interests' protection by means of BCG. It is embedded within a framework of banking laws and regulations and each individual bank is affected by the bank's corporate governance identity. It is altered with a number of obstacles that impedes its development including board of directors' ineffectiveness, short-termism and the immature Hawkamat Al-Sharikat culture. It involves actions/interactions in the form of bank strategic responses to reform pressures either by compliance or disguise of non-compliance and indeed the upgrading of the supervision function of the CBE to force reactions of banks. It leads to enhanced legitimacy of banks, a perceived protection of shareholders and depositors and through the interaction of supervision,
bank strategies and obstacles, further BCG reform is identified. Indeed the ongoing interplay of all these aspects leads ultimately to evolving BCG practices.

In the next chapter the substantive theory is explained using a NIST theoretical framework, giving it more formality.
CHAPTER EIGHT

Relating Substantive Theory to Formal Theory

8.1 Introduction

The objective of this chapter is to discuss the substantive theory of BCG presented in the previous chapter in the light of the extant literature related to formal theory (NIST). Indeed the substantive theory of BCG was arrived to through the application of grounded theory techniques as follows: the open coding which included data collection about BCG phenomenon within the EBS using semi-structured interviews (A) with bank directors and executives amongst other governmental officials and professionals. Semi-structured interviews questions were enlightened by a survey of BCG practices within EBS that identified important areas to be addressed during the subsequent interviews. The semi-structured interviews (A) allowed the emergence of nine open categories whose properties and dimensions were identified. The open categories that emerged from open coding are: Bank corporate governance identity, laws and regulations, upgrading supervision, Bank competitiveness, pressure groups, interests' protection, board effectiveness in corporate governance, modifying BCG internal mechanisms and Hawkamat Al-Sharikat Culture. Where open coding main purpose was to develop categories in terms of their properties and dimensions, axial coding aimed to reassemble the data fractured in open coding and focuses on relating the open categories and arrange them to form a coherent overall system (Howell, 2000). Open and axial coding occurred both concurrently and sequentially, they
proceeded together, as such sampling through the semi-structured interviews (A) contributed to both stages. In axial coding the nine open categories were subsumed into five main categories: Drivers, Obstacles, Reform strategies, contextual factors and evolving BCG practices. Axial coding focused on the identification of a phenomenon that can explain “what is going on” (Strauss and Corbin, 1998: 125). As such the five abovementioned main categories were related by the means of a coding paradigm model (Strauss and Corbin, 1990; 1998). Precisely, the causal conditions and phenomenon are drivers and evolving BCG practices. The context and intervening conditions are contextual factors and obstacles. While the reform strategies represent the action/interaction component of the paradigm model. Finally, the consequences of the reform strategies were enhanced legitimacy towards the shareholders and regulators, better perceived protection of their interests and further BCG reform. Indeed, the action choice matrix and evolving BCG model have contributed in identification of the processes and demonstrated the link with the structure where the phenomenon of evolving BCG is embedded, thus capturing as far as possible complexities of the real life (Strauss and Corbin, 1998).

This has provided the basis of the selective coding. As the final coding stage, selective coding aimed to “select the core category and validate its relationship with other subcategories to form a larger theoretical scheme that the research findings take the form of theory” (Strauss and Corbin, 1998: 143). As such on the basis of patterns established during axial coding, selective coding has identified the core category and verified its relationship with subcategories by utilizing the paradigm model again. Although, sampling was initially variational and relational during open
and axial coding; during selective coding sampling was discriminate and identified those to be interviewed, leading to utilizing a second round of semi-structured interviews (B) with participants from various bank types and the CBE. Selective coding identified the core category as BCG reform in terms of its properties and dimensions that lead to developing the BCG reform model. This model and verification of relationships between BCG and subcategories lead to the formulation of the substantive theory of BCG.

8.2 Formal Grounded Theory Building

In this context, the substantive theory is further discussed in the light of the extant literature relating to formal theory. The objective is to arrive at a more formal grounded theory. The difference between formal and substantive theories is that the former "emerges from the study of a phenomenon examined under different types of situations" (Strauss and Corbin, 1990: 174). While, the latter "evolves from the study of a phenomenon situated in one particular situational context" (ibid).

Indeed, this study aimed at developing a substantive theory about corporate governance within the EBS context. However, still the substantive theory can be a more formal grounded theory 139 (Glaser and Strauss, 1967). This can occur by applying a formal theory to the substantive theory already developed. This can give it "greater meaning" (ibid: 94). This may possibly "refines, extends, challenges, or supersedes extant concepts" (Charmaz, 2006: 169). Furthermore, linking the substantive and formal theories would help to locate the arguments made in the

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139 The formal grounded theory is still a substantive theory but gain more formality through comparison with already established formal theories (Glaser and Strauss, 1967)
substantive theory in the existing body of knowledge, thus making the substantive theory more explicit (ibid).

As previously mentioned traditional corporate governance theorizing is unable to offer the corporate governance phenomenon the required level of understanding because: its economic underpinnings of efficiency and rationality are incompatible with the corporate governance phenomenon as a social process; considers corporate governance as a static phenomenon detached from its institutional context (Letza and Sun, 2002; Aguilera and Jackson, 2003; Letza et al, 2004; Kirkbride et al, 2005; Mason et al, 2007; Ardalan, 2007; Letza et al, 2008). Moreover, traditional theoretical framework is not compatible with the changing nature of the organization (Zingales, 2000); of limited benefit in and un-transferable to non-Anglo-American markets (Rwegarsia, 2000); did not prove fitness with corporate governance related scandals occurring at global scale (Kirkpatrik, 2009; De larosière et al, 2009). In contrast, NSIT is not only able to overcome traditional theorizing shortcomings but also is particularly well-suited to further discuss the main findings of this study.

The rest of this chapter will firstly, summarize the reasons that NIST is relevant to underpin corporate governance research and as such further explore the main findings of the substantive theory, then critically review corporate governance studies

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140 Numerous corporate governance studies are informed by either the agency or stakeholder theories, as the widely accepted theoretical framework for studying corporate governance (Freeman and Reed, 1983; Maher and Andersson, 2000; O’Sullivan, 2000; Kakabadse and Kakabadse, 2001; Friedman and Miles, 2002; Omran et al, 2002; Letza and Sun, 2002; Letza et al, 2004; Kirkbride et al 2005, Chilesi and Damiani, 2007; Carillo, 2007; Nwanji and Howell, 2007a; Nwanji and Howell, 2007b; Letza et al, 2008; Keay, 2010).

141 Previously mentioned in the literature review, for details see section 2.7 alternative corporate governance theorizing.
informed with NIST and finally discusses the substantive theory in the light of NIST and present a more formal substantive theory.

8.3 Relevance of NIST to Study Corporate Governance Research

Generally, it can be argued that NIST is well-suited to study corporate governance phenomenon. The grounds for this argument are highlighted in details within the literature review chapter of this thesis. However, these reasons are briefly revisited here as follows:

1. The NIST is quite useful for understanding institutions such as corporate governance that affects and is affected by the wider institutional environment (Scott, 2001). It is also useful in examining the effects of an institution such as corporate governance on organizations within a particular field (Scott, 1987).

2. NIST emphasises the embeddedness of organizations in social structures and pays attention to legitimacy as the main reason of organizational change rather than the economic notions of rationality and efficiency (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). As such it probably offers a non-traditional venue for better understanding corporate governance.

3. NIST analyzes organizations from an open system perspective (Scott, 2001, 2003), considers that organizations are social and cultural systems and not merely production systems (Scott, 2001), which is more compatible with corporate governance considered as a social phenomenon that: varies according to the institutional context where it is embedded, is dynamic and...

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142 which is the main criticism of the traditional corporate governance theorizing.
evolving, is affected by non-economic factors such as culture and politics, requires a processual and pluralistic approach of analysis that is uniquely affected by the surrounding environment (Letza and Sun, 2002; Letza et al, 2004, Kirkbride et al, 2005, Letza et al, 2008).

4. NIST pays attention to organizational change related to institutionalization or deinstitutionalization as a social process where various actors can participate in creation of the social reality (Berger and Luckman, 1967; Zajac and Westphal, 2004; Scott, 1987). Therefore, from a social constructionist point of view, NIST matches the nature of corporate governance as a social process affected by and affects its surrounding environment.

5. NIST pays attention to the importance of power conception and its reflection on actors' interests (Scott, 2001; Dillard et al, 2004, Mason et al, 2007; Powell, 2008). Similarly, the concept of power is central to corporate governance, as corporate governance can be seen as "The exercise of power at the level of the corporate entity" (Tricker, 1995).

6. NIST is getting more popularity for corporate governance researchers as will be shown in detail in the following section.

8.4 Reviewing Corporate Governance Research Utilizing NIST

Many corporate governance researches have utilized NIST as their theoretical framework, one commonality amongst this research venue is using NIST to understand why codes of corporate governance are initiated and adopted. For example Aguilera and Cuervo-Cazurra (2004) explored codes of corporate
governance in 49 countries and questioned the reasons for adoption of these codes; they concluded that legitimating pressures was a leading reason for code adoption. Enrione et al. (2006) studied the process of institutionalization of corporate governance codes in 78 countries and identified the actors who played a significant role in the institutionalization process. Obviously, Enrione et al. (2006) have identified the main drivers of issuing a code being maintaining legitimacy of law makers and regulators. Similarly, Zattoni and Cuomo (2008) have studied the reasons for adoption of codes of corporate governance in 60 countries and concluded that in civil law countries corporate governance codes are adopted because of legitimating reasons rather than to improve corporate governance practices among national companies.

Other researchers have utilized NIST to understand corporate governance reforms or changes at a country level. For example Khadaroo and Shaikh (2007) studied corporate governance reform in Malaysia utilizing a NIST lens; they identified various coercive, normative and mimetic pressures that lead to corporate governance reform. They identified that the Malaysian approach for corporate governance reform was regulations based. Deo and Irvine (2007) have studied the role of corporate governance rules and regulations in assisting banks to maintain their legitimacy and public image during crisis. Yoshikawa et al. (2007) utilized NIST to study corporate governance changes in Japan and identified that the Japanese Ministry of Justice has revised the commercial code seeking legitimacy. Moreover, Siddiqui (2010) has studied the development of corporate governance regulation in Bangladesh utilizing a NIST framework; Siddiqui (2010) identified seeking legitimacy rather than efficiency
aspects as the reason for adoption of the prevailing corporate governance model. Other researchers utilized NIST as a foundation to examine institutional changes related to corporate governance, for example Ben-Messaoud (2004) have utilized NIST to understand the mimetic behaviour of Anglo-Saxon institutional investors regarding supporting the diffusion of Anglo-Saxon corporate governance model in France by addressing legitimacy reasons. Finally, Chizema and Buck (2006) have utilized NIST to develop propositions regarding corporate governance change in the context of Germany. They particularly addressed the executive stock options. The paper concluded that testing such propositions may require long time for institutionalization to occur but they identified that the degree of embeddedness of the firm with particular institutions is a key aspect to predict institutional change. Indeed, the previous researches indicate that NIST is relevant to explain the corporate governance phenomenon. However, it should be noted that the previous papers share the emphasis on institutionalization as an output rather than a process, as well as focusing on legitimation aspect of corporate governance (Aguilera and Cuervo-Cazurra, 2004; Enrione et al, 2006; Zattoni, and Cuomo, 2008; Khadaroo and Shaikh, 2007; Deo and Irvine, 2007; Yoshikawa et al, 2007; Siddiqui, 2010). While, Ben-Messaoud (2004) and Chizema and Buck (2006) have addressed the institutional change at a theoretical rather empirical level.

8.4.1 Limitations of the Literature Linking NIST and Corporate Governance

Here two limitations of NIST literature should be addressed: generally, the NIST literature have not adequately covered institutionalization as a process rather an output (Dillard et al, 2004; Phillips et al, 2004). This limitation is shared in the
literature linking the NIST to corporate governance as mentioned above. The second limitation of the NIST literature is that it usually focused on providing explanation for the homogeneity of organizational arrangements and structures due to isomorphism (DiMaggio and Powell, 1983). Rather than explaining the heterogeneity of organizational responses to institutional pressures "the theory is silent on why some organizations adopt ...... change whereas others do not" (Greenwood and Hinings, 1996, 1023). However, Dougharty (1994) and Greenwood and Hinings (1996) see that NIST offers an excellent basis for accounting for change.

In conclusion, NIST is well-suited to explore the findings of the substantive theory due to the reasons shown above, due to the fact it covers most of the substantive theory findings and on the other hand linking NIST to the substantive theory can overcome the shortcomings evident in the NIST and corporate governance literature, by attending to the institutionalization process and explaining how the interplay of internal organizational characteristics and external environment can impact the strategies adopted by organizations in response to institutional pressures. This is covered in details in the next section.

8.5 Exploring the Substantive Theory within the Framework of NIST

This section discusses the findings of the substantive theory presented in chapter 7 of this thesis utilizing NIST framework. As mentioned earlier, NIST covers most of the findings of the substantive theory. This can be shown as follows:
I. Analyzing Corporate Governance as a Social Process

The substantive theory has presented BCG reform as the core phenomenon of this study. Here the BCG reform is an ongoing process that affects various banking organizations within the EBS. Indeed, there is an interplay between the reform process, the CBE as the principal actor in this process, banks and other recognized stakeholders namely shareholders and depositors. Moreover, BCG reform is affected by the wider environment where it is embedded. The substantive theory shows that BCG reform is affected by laws and regulations, organizational characteristics (management control, organizational perception of corporate governance, board directors and executives’ competence). Moreover, BCG reform is obstructed by ineffectiveness of boards in corporate governance aspects, short-termism prevailing in many banks. Finally, BCG reform is affected by the immaturity of Hawkamat Al-Sharikat culture that encompasses other cultural aspects most importantly the prevailing culture of corporate governance rejection within the EBS and the secrecy culture and unsupportive public governance.

Indeed, all this legal, organizational, political and cultural factors affect BCG practices of various banking organizations. As such, from a NIST point of view, banking organizations can be analyzed from an open system perspective, where their BCG practices are indeed, affected by "the wider context or environment" (Scott, 2001: XX). Also this agrees with the argument that corporate governance is a social phenomenon that is affected by the institutional context it is embedded and consequently with non-economic factors such as culture, politics and legal aspects (Ardalan, 2007). Moreover, the institutional context includes human factors
(Zingales, 2004). Here, the substantive theory acknowledges that banking organizations seen as firms are composed of human beings as such directors and executives' competence has an influential impact on BCG practices. The substantive theory sees BCG practices as evolving and in continuous interplay with the environment, this also agrees with the social view of corporate governance that acknowledge that any corporate governance system will continue to evolve (Ardalan, 2007).

II. Institutionalization of BCG within the EBS

The substantive theory shows that BCG reform is a process initiated due to the pressures exerted primarily by the CBE (Regulator). However, other pressure groups indirectly influence this process such as international organization (World Bank and Basel committee on banking supervision); here, the substantive theory indicated that these groups are only secondary and do not have the same power of the CBE. At the same time the substantive theory indicated that BCG reform is intended to serve particular interests protection namely: depositors, shareholders, and the regulator. So the substantive theory is about the relative power of particular groups and how they protect their respective interests. Within the context of NIST, the BCG reform process can be considered as an institutionalization process, because "institutionalization is a political process, and the success of the process and the form it takes depends on the relative power of the actors who strive to steer it" (Powell, 2008: 5). Indeed, the most powerful actors in the process of BCG are the CBE as the regulator of the banking sector and the shareholders. The source of power

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143 Recognized stakeholders
of the former is based on the coercive power and the authority the CBE has on various banks. While, the latter (shareholders) are powerful especially that ownership concentration ratio is quite high in most of banks, thus shareholders are a powerful actor within this process. Regarding depositors, their power is not clear in relation to BCG, however, the CBE strives to protect their interests to achieve his overriding objective of maintaining the soundness and safety of the EBS and avoid corporate governance related bank failures.

Moreover, the substantive theory indicates that the BCG reform process is initiated or based on particular pillars: Firstly, a regulative pillar represented by law 88/2003 and the corporate governance aspects it covers as well as the corporate governance related regulations issued by the CBE. Both present the main pillar of the BCG institutionalization process. It must be noted that this regulative pillar is accompanied with an informal structure which is the normative framework that entails obeying the CBE\textsuperscript{144}. This pillar utilizes coercive pressure on banks to comply with related BCG rules and regulations as well as normative pressures. From a NIST perspective this is the "most common case" (Scott, 2001: 53), where the coercive power is legitimated by a normative framework. The NIST also proposes that the institutionalization process based on the regulative pillar is carried through symbolic, relational and routine carries (Scott, 2001). Within the substantive theory this is commensurable, as BCG rules and regulations included in the banking law 88/2003 as well as the CBE directives represent symbolic carriers. Symbolic carriers connotes "uniformity and

\textsuperscript{144} The substantive theory has shown that all banks agree that the interests of the CBE must be served at all times, indicating that obeying the commands is a binding expectation and a measure of appropriates.
promote consistency of action" (ibid: 78), which is compliance with these BCG rules and regulations. The coercive power associated with this rules and regulations represent relational system carriers. Finally, the CBE enact two types of routines to scrutinize and verify the compliance of banks with BCG rules and regulations. These routines are the supervision function (on-site and off-site examination) and the external auditing function implemented by auditing firms. Here routines are attempts by the CBE to "formalize processes for checking suitability of governance activity" (Mason et al, 2007: 294) by various actors.

Finally, the substantive theory indicated that compliance with the BCG rules and regulations is based on seeking pragmatic legitimacy which is "self-interested calculations" of an organization regarding its most direct audiences (Suchman, 1995: 578). Pragmatic legitimacy here is sought by various banking organizations to be perceived as appropriate by the CBE and the shareholders. Pragmatic legitimacy here entails adopting BCG requirements as imposed by the CBE. At the meantime, achieving shareholders objectives cannot occur without compliance with the regulator requirements. So legitimacy is a principal framework governing banks. This indicates that BCG is more geared towards the regulative pillar.

Although, the substantive theory has indicated that there are normative pressures from the EBI, EIOD and international organizations, the impact of these pressures is not strong enough to initiate change. Finally, as the NIST can include a culture-cognitive pillar that would bring institutionalization (Scott, 2001). The substantive theory indicated that at the time being the culture of corporate governance within the EBS is at its early stages of formation and that this requires changing or
deinstitutionalization of the rejection of corporate governance culture and secrecy culture and improving public governance to aid in building of Hawkamat Al-Sharikat culture. Indeed this is a long term process. However, the NIST acknowledges that organizations and organizational fields can be shaped by different combination of the regulative, normative and cultural elements that vary from one context to another as well as overtime (Powell, 2008). Although currently the regulative element is salient, normative and culture-cognitive components may play a role over the long-term.

In conclusion, the BCG reform indicates the institutionalization process of BCG within the EBS; this process is currently based on a regulative aspect. Indeed, institutionalization especially from a social constructivism point of view indicates a process “by which organizational policies become instilled with value and ultimately taken for granted among external constituents” (Zajac and Westphal, 2004: 440). It entails a “reciprocal typification of habitualized actions by types of actors (Berger and Luckmann, 1967: 72). However, institutionalisation happens to organizations overtime and “infuse with value beyond technical requirements of tasks” (Selznick, 1957). This process of institutionalization proceeds till something is institutionalized, this occurs only “when it is unquestioned and taken for granted” (Hasselbladh and Kallinkos, 2000, cited Sandhue, 2009: 82).

As the substantive theory indicates, the institutionalization of BCG is now derived by regulative pillar and legitimacy is based on coercive mechanism. However, normative pressures do exist, and by more efforts from professional bodies such as EBI and EIOD, overtime BCG practices may be adopted by the logic of appropriateness. This can occur because “professional training institutions are important centers for the
development of organizational norms among professional managers and their staff’ (DiMaggio and Powell, 1983: 152). Leading to isomorphism, or adoption of BCG due to normative pressures. Overtime and the wide spread of adoption of BCG practices this can be taken for granted within culture-cognitive pillar of institution. The time that BCG can be considered fully institutionalized and organization adopt BCG seeking cognitive legitimacy¹⁴⁵ (Suchman, 1995).

III. Heterogeneity of Banking Organizations’ Strategic Responses

The substantive theory has indicated that banking organizations based on their corporate governance identity and the impact of obstacles on the bank¹⁴⁶ either chooses a compliance (Acquiesce) strategy (Oliver, 1991) or an avoidance strategy by disguising non-compliance (ibid).

Indeed, organizational responses to institutional pressures are an important aspect within the NIST. However, NIST focused for long time on the responses that lead to homogeneity of organizational structure (isomorphism), as such it was criticized for inattention to heterogeneity of organizational responses, an issue that recently received attention of institutional scholars (Dacin et al, 2002). Here the substantive theory has shown how some banking organizations adopt arising BCG requirements by real compliance, while other banks comply by appearance only or on “ceremonial basis” (Meyer and Rowan, 1977). These banks disguising non-compliance do so

¹⁴⁵ is that type of legitimacy that is neither based on serving particular interests nor being evaluated as doing right things. It is based on the acceptance of an organization “as necessary or inevitable based on some taken-for-granted cultural account” (Suchman, 1995: 582). This type legitimacy reflects a “preconscious standards” related to how organizational activities should be performed (Mason et al, 2007: 293).

¹⁴⁶ see the Action choice matrix in chapter six: Axial coding.
because they too seek legitimacy, but they have internal organizational characteristics that in hinder implementation as well as being more susceptible to external obstacles. However, with the upgrading of the symbolic and routines carriers of BCG, the ability to discover non-compliance will increase, leading coercive pressures to increase as well. Moreover, the growth of normative pressures is progressing as a result of the EBI and EIOD efforts. As such, these banks will either comply or move to another strategic choice such as “defy” that involve open challenging or lobbying with other similar cases to influence the environment to make it more suitable to their needs (Fiss, 2008). As nicely described by Carruthers (1995) “Organizations play an active role in constructing rationalized myths, playing them off against each other, or shaping how they are applied in particular instances, organizations are not only granted legitimacy; sometimes they go out and get it” (P. 324).

Therefore, the substantive theory can be explained within the NIST framework, but not on the traditional basis of homogeneity of organizational responses, rather on the basis of accepting that organizations can differently respond to institutional pressures through various strategies such as outlined by Oliver (1991) which include Acquiesce, compromise, avoid, defy and manipulate (P.152). This demonstrate empirically that NIST offers an excellent basis for accounting for change and confirms earlier arguments of institutional researchers such as Dougharty (1994) and Greenwood and Hinings (1996).
8.6 More Formal Substantive Theory

In the light of the previous discussion, the substantive theory can now be restated in a more formal way with a NIST underpinning as follows:

- The substantive theory is indicated that corporate governance is a social phenomenon that is shaped by the concept of the relative power of particular groups and how they protect their respective interests and consequently initiate BCG reforms and exert pressures to protect their interests. As such the substantive theory accepts corporate governance definition of "The exercise of power at the level of the corporate entity" (Tricker, 1995)

- It is about how the internal characteristics of banking organizations such as management control, employees' competence (directors and executives), and organizational perception of corporate governance interfere to determine the strategic response to BCG reform requirements within the overall regulatory framework.

- It is also about how particular non-economic factors such culture, competence (human) and organizational dimensions can alter or mitigate the impetus of BCG reform.

- The substantive theory is about the heterogeneity of strategic bank responses to BCG reform pressures with a complex interplay between the normative
framework of obeying the CBE, fear of punishment, effect of dominant
culture of corporate governance rejection and secrecy and the effect of
internal characteristics of the bank that lead to compliance or avoidance by
disguising non-compliance.

- Overall taking an open system perspective for organizational analysis would
imply that BCG reform process is given impetus through interaction of arising
corporate governance requirements set by the CBE, internal characteristics of
banking organizations, and pressure groups' requirements. Thus leading to
evolving BCG practices, enhanced legitimacy and perceived protection of
recognized stakeholders. This along with the supervision function (routine)
enacted by the CBE provide feedback on bank responses and initiate further
BCG reform requirements.

- The substantive theory is about the institutionalization of BCG that is geared
towards the regulative pillar of institutions and the use of coercive power and
seeks legitimacy by serving particular interests. With a potential role of the
normative and culture-cognitive pillars of institutions given that actors
maintain their roles of agency.

8.7 Conclusion

This chapter explores the substantive theory of BCG presented in the previous
chapter in the light of NIST outlined and discussed as an alternative theoretical
framework that can underpin corporate governance discussions rather than the
traditional shareholding-stakeholding theorizing. This chapter revisits the relevance of NIST to discuss corporate governance phenomenon and summarizes the reasons of such relevancy. Explaining the substantive theory in terms of an existing formal theory such as NIST was not meant to turn the substantive to formal theory; but to make it a formal substantive theory (Glaser and Strauss, 1967). The substantive theory was interpreted in terms of the NIST from three perspectives: It interprets BCG reform as a social process and shows that banking organizations within the EBS can be analyzed from an open system perspective, where their respective BCG practices are affected by the wider context or environment (Scott, 2001). It confirms that BCG can be seen as a social process affected by non-economic factors such as culture, politics and legal aspects as posited by the substantive theory. It is also affected by human beings (Zingales, 2004) as indicated by the substantive theory (employee's competence). The substantive theory also confirms that BCG practices have an evolving nature due to continuous interplay with the environment.

The second perspective explains that the BCG reform process indicates the institutionalization of BCG within the EBS. It shows how the various pressures exemplify Regulative-Normative-Cultural / Cognitive pillars of institutions. It concluded that BCG reform demonstrate that BCG is a political process, with the powerful actors pushing to serve their respective interests. It shows that BCG is about power. It identifies that the institutionalization of BCG gains it impetus from the coercive power of the regulative pillar of institutions. This occurs through enforcing BCG laws and issuing related regulations by the CBE. It shows that this institutional pillar is associated with a normative framework that entails obeying the CBE and
opposed by cultural-cognitive institution of rejection of corporate governance culture and secrecy culture.

It shows that the regulatory pillar of institution is accompanied by two types of routines (supervision function and external auditors' work) and is carried through symbolic carriers (Laws and CBE directives).

It shows that compliance with BCG institutions is based on banks' seeking pragmatic legitimacy rather than rationality imperative.

This institutionalization is in process and BCG is not yet taken-for-granted or completely infused in the values of banks, indicating that BCG is not yet fully institutionalized. It is a matter of time and politics that will keep this process until it is unquestioned and taken for granted. This would occur overtime and probably lead to the change to the type of legitimacy sought by banks to be cognitive rather than pragmatic legitimacy (Suchman, 1995).

The third aspect is that the NIST explained the heterogeneity of banks' strategic responses to the BCG institution. Some banks choose compliance while others choose disguising of non-compliance. But both do that seeking legitimacy indeed, the strategic choice is affected by internal organizational characteristics that in hinder compliance. Additionally, it makes them more susceptible to obstacles. But with stringent supervision being introduced, coercive pressures are likely to increase. Also, normative pressures of the EBI and EIOD are likely to increase. Those banks disguising non-compliance will move institutional pressures to comply or move to another strategic choice such as defy (Oliver, 1991) by challenging BCG institution.
through lobbing. Finally, the chapter restates the substantive theory within the NIST framework.
CHAPTER NINE

Conclusion, Contributions and Future Research

9.1 Introduction
This thesis has investigated the phenomenon of corporate governance within the context of the EBS. It identified its nature in terms of the structures where it is embedded and how these structures interact with a number of processes to bring about the phenomenon of evolving BCG practices. Indeed, this included identifying the factors shaping the phenomenon as shown in the substantive theory (see chapter seven). This thesis is based on a combination of social constructionist and interpretative paradigms of inquiry. It applied a grounded theory methodology to develop the substantive theory of BCG through systematic data collection and analysis. This chapter presents the overall conclusion of the thesis, the contributions to knowledge and directions for future research.

9.2 Conclusion of the Thesis
This thesis has achieved the objectives of this study to build a substantive theory of BCG within the EBS using the NIST theoretical framework. As such, discovered and understood the nature of BCG phenomenon through identifying the structural factors shaping it and how these factors interact together with certain processes leading to the occurrence of the phenomenon. Additionally, this thesis empirically demonstrated the utilisation of a non-traditional theoretical framework for corporate governance.
understanding. Indeed, the thesis has utilized a grounded theory methodology to build the substantive theory of BCG. This included utilizing grounded theory techniques of coding, comparative analysis and theoretical sampling. The substantive theory is grounded on data as it reflects the opinion of banks’ directors and executives, CB officials, government officials and auditors. The substantive theory acknowledges that corporate governance is a social phenomenon that is affected by the institutional environment where it is embedded. Open coding and the data collected from the semi-structured interviews (A) allowed the development of categories in terms of their properties and dimensions. Axial coding re-arranged these categories in different ways and linked them together utilizing the paradigm model. Finally, selective coding utilized another round of semi-structured interviews (B) to identify the core category of BCG reform in terms of its properties and dimensions and linked it to other sub-categories using the paradigm model. Furthermore, using the NIST theoretical framework the thesis constructed a formal grounded theory that can be summarized as follows:

- The substantive theory is about the relative power of particular groups and how they protect their respective interests and consequently initiate BCG reforms. As such, the substantive theory accepts corporate governance definition of "The exercise of power, at the level of the corporate entity" (Tricker, 1995).
• It is about how the internal characteristics of banks interfere to determine the strategic response of banks to BCG reform requirements according to laws and regulations governing the EBS.

• It is also about how particular non-economic factors such as culture, competence and regulatory framework can alter or mitigate the impetus of BCG reform.

• The substantive theory is about the heterogeneity of banks' responses to BCG reform pressures shaped by a complex interplay between the normative framework of obeying the CBE, fear of punishment, effect of dominant cultures of corporate governance rejection and secrecy and the impact of internal characteristics of banking organizations that lead to either compliance with reform pressures or their avoidance by disguising non-compliance.

• Overall, taking an open system perspective for organizational analysis would imply that BCG reform process is given impetus through interaction of arising corporate governance requirements set by the CBE, internal characteristics of banking organizations and pressure groups' requirements. Thus leading to evolution of BCG practices, enhanced legitimacy and perceived protection of recognized stakeholders. Meanwhile, the CBE’s supervision provides feedback on the extent of banks’ compliance leading to the discovery of some non-complying banks and accordingly initiate further BCG reforms.

• The substantive theory is about the institutionalization of BCG that is geared towards the regulative pillar of institutions, the use of coercive power and
pragmatic legitimacy seeking through serving particular interests. In the future the normative and culture-cognitive pillars of institutions can potentially come into play given that actors maintain their roles of agency.

9.3 Contributions of the Thesis

This study has come up with a number of contributions at the methodological, theoretical and empirical levels. This can be summarized as follows:

1- Using of grounded theory to explore the phenomenon of corporate governance in an unexplored context

On the basis of the literature review undertaken in this thesis (Chapter 2) a gap in the body of knowledge concerning the lack of research addressing the phenomenon of corporate governance in the context of the EBS was identified. Moreover, the literature review has clarified a number of important issues namely: the criticism directed towards the traditional shareholding-stakeholding perspectives adopted to understand corporate governance phenomenon; the peculiarity of corporate governance of banking organizations; the special importance of corporate governance to banking organizations of developing countries and in particularity of the Egyptian case where corporate governance weaknesses were blamed as a principal cause for the late 1990s bank failures. In addition to the recent role assigned to Egyptian banks to promote good corporate governance practices amongst its clients as part of a nationwide corporate governance reform. All signifies the importance of researching corporate

147 CBE, international organizations, EBI, EIOD
governance within the context of the EBS. Towards understanding the nature of BCG within the EBS and interpreting it based on a more suitable theoretical framework, this thesis has responded by using grounded theory to generate a substantive theory of BCG within the EBS and utilized the NIST as an alternative theoretical underpinning rather than the traditional theories.\(^{148}\)

A qualitative research design underpinned with a combination of interpretative-social constructionist paradigms was utilized to achieve the objectives of this study. Indeed, the ultimate objective was to build a substantive theory of BCG using the theoretical framework of NIST.

As such, this research has extended the grounded theory research by utilizing it as the research methodology relevant to explore the phenomenon of corporate governance within an unexplored context of the EBS.

Grounded theory procedures were applied based on data collected from bank directors and executives as the main actors responsible for corporate governance of banking organizations (BCBS, 2010). Being guided with theoretical sampling technique other important research sites emerged during the research process; as such participants' opinions from these sites were integrated within the substantive theory namely: CBE, international auditing firms, EBI, EIOD and Egyptian Stock exchange. Data collection and analysis occurred simultaneously, and analysis guided further data collection (Strauss and Corbin, 1998). Data collection in this thesis included: a survey that enlightened data collection using semi-structured

\(^{148}\) The agency or the stakeholders' theories.
interviews, semi-structured interviews (A) which contributed to open, variational /relational sampling and discriminate sampling. In addition to the second round of semi-structured interviews (B) related to discriminate sampling.

The data collected for this thesis were analyzed using grounded theory methods. This included the processes of data reduction, concepts discovery, categories development. These categories were integrated into the substantive theory (Howell, 2000). As advocated by Strauss and Corbin (1990a; 1990b; 1998) initially, open coding aimed at developing categories in terms of their properties and dimensions. Through simultaneous data collection\textsuperscript{149} and analysis nine open categories were developed: bank's corporate governance identity, laws and regulations, upgrading supervision, bank competitiveness, pressure groups, interests' protection, board effectiveness in corporate governance, modifying internal BCG mechanisms and Hawkamat Al-Sharikat culture.

Axial coding aimed to re-assemble the data fractured in open coding and focused on relating the open categories and arranging them to form a coherent overall system (Howell, 2000). Open and axial coding occurred both concurrently and sequentially; they proceeded together, as such sampling through the semi-structured interviews (A) contributed to both stages. In axial coding the nine open categories were subsumed into five main categories: Drivers, Obstacles, reform strategies, contextual factors and evolving BCG practices. These main categories were linked together by the means of the paradigm model (Strauss and Corbin, 1998). The causal conditions and phenomenon are represented by drivers and

\textsuperscript{149} Semi-Structured interviews

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evolving BCG practices. The context and intervening conditions are represented by the contextual factors and obstacles. While, reform strategies represented the action / interaction component of the paradigm model. Finally, the consequences of the reform strategies were enhanced legitimacy toward the shareholders and the regulator, perceived better protection of recognised stakeholders as well as further BCG reform. Indeed, the Action Choice Matrix and the Evolving BCG Model contributed in identification of the processes and linked it together with the structure where the BCG phenomenon is embedded. This captured as far as possible some of the complexities of real life (Strauss and Corbin, 1998). At the final coding stage, selective coding aimed to select “the core category and validate its relationship with other subcategories to form a larger theoretical scheme that the research findings take the form of theory” (Strauss and Corbin, 1998: 143). As such on the basis of patterns laid down during axial coding, selective coding has identified the core category and verified its relationship with subcategories by utilizing the paradigm model again. Although the sampling was initially variational and relational during open and axial coding, during selective coding sampling was discriminate and identified those to be interviewed, leading to utilizing a second round of semi-structured interviews (B) with participants from various bank types and the CBE. Selective coding identified the core category as BCG reform in terms of its properties and dimensions that lead to developing a BCG Reform Model which demonstrates the substantive theory of BCG.
The substantive theory reflects the opinions of bank directors and executives, CB officials, auditors and other governmental officials. Thus, it is grounded on data obtained from the substantive area studied here that is the EBS. The substantive theory exemplifies a system of BCG reform; it captures some of the complexities of the real life by accounting for both the structure where the phenomenon of BCG is embedded as well as the processes taking place. It shows the interaction and interplay between BCG reform and the banking environment that indeed, leads to the evolution of the BCG practices within the EBS. The theory shows that BCG reform is derived by pressure groups seeking protection of their interests by means of proper corporate governance of banks. BCG phenomenon is embedded within a macro-framework of banking laws and regulations, and a micro-framework at individual banks level of bank corporate governance identity based on the degree of management control, employees competence (bank directors and executives) and the bank’s organizational perception of corporate governance. The substantive theory also attended to a number of obstacles that impede further development of BCG namely: the board of directors’ ineffectiveness in corporate governance, short-termism and immature Hawkamat Al-Sharikat culture. It identifies banks’ strategic responses to BCG reform pressures by either compliance or disguise of non-compliance. The substantive theory also identified the CBE actions in relation to BCG is upgrading its supervisory role. The response of banks currently leads to an enhanced legitimacy of banks because of their appearance as compliant with the legal corporate governance requirements. Also this leads to banks being perceived by recognized
stakeholders (shareholders, regulator and depositors) as providing them with better protection of their respective interests. While, the interaction of bank responses with the upgrading of supervision and auditors role in scrutinizing corporate governance structures lead to discovery of new points of weaknesses and hence lead to further BCG reforms. Finally the substantive theory shows that the ongoing interplay of the structure and actions / interactions by main actors ultimately lead to evolution of BCG practices within the EBS.

Hence, this thesis contributes to extending the application of grounded theory to give a fresh and faithful understanding of corporate governance phenomenon in an unexplored context. Few previous studies of corporate governance have utilized the grounded theory to explore the phenomenon of corporate governance namely: Xiao et al (2004), Goddard and Assad (2006) and Nwanji (2006). However, none of these previous studies has aimed principally to explore the corporate governance phenomenon per se, but only an aspect or more of corporate governance such as the role of the supervisory board (see Xiao et al, 2004), while, Goddard and Assad (2006) investigated the phenomenon of accounting in non-governmental organizations. They investigated governance in a limited way that focused only on corporate governance as a way of improving credibility of these organizations. Nwanji (2006) investigated the ethical implications of corporate governance. As such, this study is the first study to investigate the corporate governance phenomenon in a profound manner using grounded theory. The generated substantive theory as shown above identifies how the corporate governance of banks is a dynamic process that includes interaction between
organizations and their external environment. It clarifies that corporate governance is not adopted on the basis of economic efficiency or rationality but organizations adopt corporate governance seeking legitimacy. Corporate governance of every organization is uniquely affected by legal, regulatory, human, organizational and cultural factors. As such this thesis has heeded the calls for empirical corporate governance research that takes into account the institutional environment where corporate governance is embedded (Zingalas, 2000; Letza and Sun, 2004; Letza et al, 2004; Ratnatunga and Ariff, 2005; Lubatkin et al, 2005; Judge, 2009; Durisin and Puzone, 2009). And also responded to calls of studying the corporate governance phenomenon itself rather explaining it in terms of proxies; it is a response to calls to seek meaningful evidence that can “inform and improve practice” (Smallman, 2007).

2- Extension of the Neo-Institutional Sociological Theory to explore the phenomenon of BCG

Recently, many corporate governance researchers have been directed towards utilizing the NIST to underpin their corporate governance research. One commonality amongst this research stream is using NIST to understand why corporate governance codes are initiated and adopted for example Aguilera and Cuervo-Cazurra (2004), Enrione et al (2006) as well as Zattoni and Cuomo (2008). Other researchers have utilized NIST to understand corporate governance reforms or change at country level for example Khadaroo and Shaikh (2006), Deo and Irvine (2007), Yoshikawa et al (2007) and Siddiqui (2010). Indeed, one common conclusion among this line of research is that the adoption of corporate
governance occurs for reasons of seeking legitimacy. However, it is important to point out here that the emphasis of these papers was on the institutionalization of corporate governance as an output rather than a process as well as on focusing on legitimizing aspect of adopting corporate governance (Aguilera and Cuervo-Cazurra, 2004; Enirone et al, 2006; Zattoni and Cuomo, 2008; Khadaroo and Shaikh, 2007; Deo and Irvine, 2007; Yoshikawa et al, Siddiqui, 2010). Other researchers such as Ben-messoud (2004) and Chizema and Buck (2006) have addressed institutionalization process of corporate governance, however, this was only at a theoretical rather than empirical level. As such the limitation of NIST literature in dealing with institutionalization as a process rather than an output is documented (Dillard et al, 2004; Phillips et al, 2004). This limitation is shared in the literature linking the NIST to corporate governance as mentioned above. A second limitation of NIST is that it is usually seen as providing explanations for the homogeneity of organizational arrangements and structure due to isomorphism (DiMaggio and Powell, 1983). Rather than explaining the heterogeneity of organizational responses "the theory is silent on why some organizations adopt... change whereas others do not" (Greenwood and Hinnings, 1996:1023). However, Dougharty (1994) as well as Greenwood and Hinnings (1996) share the opinion that NIST can offer an excellent basis for accounting for change.

In this thesis NIST was utilized as a formal theory to further explore the findings of the substantive theory of BCG. It was used to give the substantive theory more
formality (Glaser and Strauss, 1967). This thesis has contributed to overcoming the above mentioned limitations of the NIST literature.

Firstly, the thesis has accounted to institutionalization of corporate governance as a process rather than an output. It has shown that BCG reform is a process initiated due to the pressures exerted by many pressure groups. These pressures are exerted towards serving and protecting particular interests namely; depositors, shareholders and the regulator. One important aspect of the initiation of BCG is the notion of power. The influence of the regulator comes from its coercive power and authority over banks granted by law, while, the power of shareholders comes from their strong and dominant position given the high ownership concentration ratios, finally, depositors’ power is not clearly related to BCG; however, the CBE strives to protect their interests to achieve his overriding objective of maintaining the soundness and safety of the EBS and avoid the repetition of the 1990s corporate governance related bank failures. Within this context, the BCG reform process was considered as an institutionalization process, because “institutionalisation is a political process and the success of the process and the form it takes depends on the relative power of the actors who strive to steer it” (Powell, 2008:5).

Moreover, NIST has interpreted the institutionalisation process of BCG in terms of identifying its institutional pillars. NIST posits that institutionalization process can be based on a regulative, normative or cultural-cognitive pillars (Scott, 2001). Here, the institutionalisation of BCG is occurring in terms of the regulative pillar accompanied by a normative framework entailing that all banks should obey the
CBE. This institution is carried through symbolic carriers (Scott, 2001) of laws and CBE directives. While, the coercive power associated with these rules and regulations represent the relational system carrier (ibid). Finally, this institution is accompanied by two types of routines to scrutinize and verify the compliance of banks with BCG rules and regulations. These routines are the supervisory function (on-site and off-site examination) and the external auditing function implemented by external auditing firms. Here, the institutionalization process brings about change in banking organizations that respond to the institutionalization of BCG because they are legitimacy seeking organizations and complying with BCG institution is the means of achieving this legitimacy in the eyes of the regulator and respective shareholders. Indeed, institutionalisation of BCG is still in process and not yet fully institutionalized because something is institutionalized “when it is unquestioned and taken-for-granted” (Hasselbladh and Kallinkos, 2000 cited in Sandhue, 2009:82). The thesis has explained that full institutionalisation may occur when other pillars of institutions are enacted. That is the normative framework of BCG becomes more effective, and banks seek legitimacy on the basis of appropriateness rather than pragmatism (Suchman, 1995) thus compliance to BCG entails achieving moral legitimacy (ibid). Overtime, this would face changes that lead to BCG being completely unquestioned and taken-for-granted by banks In Egypt. Only then, compliance with BCG will be based on seeking legitimacy on different basis i.e. cognitive legitimacy (ibid). The thesis has indicated that this process needs to take place overtime and requires continuous efforts from professional organizations such as
EBI and EIOD in addition to embedding the value of BCG in the banking environment to face the opposing cultures of corporate governance rejection and secrecy that are currently obstructing the institutionalisation process, this also requires reforming of public governance in Egypt.

Secondly, the thesis has used NIST to explain the heterogeneity of banking organizations' strategic responses rather than explaining their homogeneity. Building on Oliver (1991), the thesis has indicated that banking organizations based on their corporate governance identities and the impact of obstacles\(^\text{150}\) either chooses a compliance\(^\text{151}\) strategy or an avoidance strategy by disguising non-compliance (ibid). Indeed, both responses would superficially indicate that banks are complying; the thesis has indicated that banks do so because they are seeking legitimacy. Moreover, the thesis has indicated that further pressures and upgrading of the scrutinizing routines would lead to better ability to discover banks disguising non-compliance. So this would lead to these banks either complying or turning to another strategic responses such as “defy” that involve open challenging or actively lobby with other similar cases to influence the environment to make it more suitable to their needs (Fiss, 2008) “organizations are not only granted legitimacy; sometimes they go out and get it” (Carruthers, 1995:324).

As such this thesis has contributed towards utilizing the NIST in explaining the institutionalisation process and also extends the NIST as providing useful

\(^{150}\) See the action choice matrix, chapter six axial coding.

\(^{151}\) acquiesce
explanations of heterogeneity of organizations based on their internal characteristics.

3- Corporate governance theorizing

The literature review has clarified the criticism directed at traditional corporate governance theorizing based on the agency and stakeholder theories. This included the inability of corporate governance theorizing based on the economic notions of efficiency and rationality to conceptualize corporate governance as a social process embedded in particular contextual non-economic factors that vary from one context to another. Thus considering corporate governance as a static, detached from the environment, (Letza and Sun, 2002; Aguilera and Jackson, 2008; Letza et al, 2004; Kirkbride et al, 2005; Mason et al, 2007; Ardalan, 2007; Letza et al, 2008). Considering corporate governance as unrelated to factors such as “power, legislation, social relationships and institutional contexts” (Ardalan, 2007:511). As well as other factors such as “politics...legal systems...social conventions, cultures, models of thought” (Letza et al, 2004:258). It looks at corporate governance from a very narrow perspective that does not acknowledge corporate governance as complex social phenomenon; thus adopting a closed system perspective to organizational analysis (Aguilera and Jackson, 2008). It neglects the ever-changing nature of the organization that differs from the time when these perspectives were developed (Zingalas, 2000). It does not acknowledge that the characteristics of the Anglo-American markets such as low degree of ownership concentration, limited bank holdings and timely information
are unrealizable in other economics such as Africa (Rwegarsia, 2000) making these models hardly transferable to these countries.

This thesis has heeded the calls for alternative theoretical perspectives that account for factors shaping corporate governance practices and can offer a better explanation of corporate governance practices (Aguilera and Jackson, 2003; Lee and Yoo, 2008; Boyer, 2004; Judge, 2009). Here the substantive theory of BCG developed in this thesis has shown:

- The inability of the shareholding-stakeholding perspectives of corporate governance to explain the substantive theory, because the basic theoretical assumption that underpins these theories is the efficiency theory (Letza et al., 2008) and the economic notions of efficiency and rationality. Whereas the substantive theory posits that banks adopt BCG practices seeking legitimacy regardless of efficiency in agreement with Meyer and Rowan (1977) earlier argument. Indeed, this also agrees with corporate governance research underpinned by NIST (Aguilera and Cuervo-Cazurra, 2004; Enirone et al., 2006; Zattoni and Cuomo, 2008; Khadaroo and Shaikh, 2007; Deo and Irvine, 2007; Yoshikawa et al., Siddiqui, 2010).

Here, the corporate governance phenomenon is a social process, embedded and attached to the institutional context, affected by non-economic factors namely: legal, regulatory, human, organizational and cultural factors. Corporate governance is dynamic and continuously evolving. Organizational responses cannot be similar due to internal characteristics of the organization that affect how their corporate
governance structures are affected by institutional pressures. It indicates that what really drives adoption and compliance of corporate governance is organizations seeking legitimacy not efficiency or rationality.

- The prevailing model of corporate governance within the EBS has neither been a shareholding model nor a stakeholder model, but rather a pluralistic model in between. It is a model that seeks serving shareholders and recognised stakeholders namely: depositors and the regulator. This agrees with BCG model as per BCBS (2005, 2010) and the EBI. Building on Tricker (1995) and the substantive theory a more precise definition of BCG is offered "as a process of power exercising in corporation that serves the interests of recognised stakeholders namely: shareholders, regulator and depositors". According to the substantive theory BCG is based on the respective powers of these stakeholders within a political process (Powell, 2008). Indeed, this provides an industry specific definition of corporate governance that is quite useful especially that defining corporate governance is a controversial issue as shown in the literature review. Finally, arriving to the corporate governance model prevailing in the EBS is important as it provides the empirical basis that supports the recent calls for a pluralistic approach to corporate governance (Letza and Sun, 2002; Letza et al, 2004; Kirkbride et al, 2005; Letza et al, 2008).
4- Triangulation of corporate governance, grounded theory and NIST

Based on the three abovementioned contributions of this thesis namely: the use of grounded theory to explore the phenomenon of corporate governance in an unexplored context, extending of NIST to explore the phenomenon of corporate governance and advancing the knowledge related to corporate governance theorizing. This thesis is the first thesis attempting at combining the three domains of corporate governance, grounded theory and NIST together. Indeed, this adds to the novelty of this thesis in addressing an important concept such as corporate governance that needs revisiting its theoretical underpinnings using the grounded theory methodology that “force the researcher to look beyond the superficial, to apply every possible interpretation before developing final concepts, and to demonstrate these concepts through explication and data supported evidence” (Goulding, 2004: 297), then exploring the resulting substantive theory of BCG by utilizing NIST, thus providing a new approach to corporate governance understanding. Through this approach corporate governance is context specific. This triangulation is a response to calls to seek meaningful evidence that can “inform and improve practice” (Smallman, 2007).

5- Practical contributions

This thesis provides some practical contributions to policy makers in the EBS; these can be summarized as follows:

- The substantive theory has identified determinants of banks corporate governance identity (Management control, Employees competence and
organizational perception of corporate governance). This can be useful for policy makers and the CBE in particular by addressing these aspects within the next (third) stage of BCG reform.

- More importantly the substantive theory identifies the obstacles that are currently obstructing the BCG reform namely: board of directors' ineffectiveness, short-termism and immaturity of Hawkamat Al-Sharikat Culture. These aspects are critical to be addressed by reform programmes as well.

- As the thesis has discussed how the BCG reform process indicates the institutionalization of BCG, this can be of importance to reformers as they can expect how banking organizations can respond to institutional pressures. As such continuing the regulation based institutionalization process in-parallel with directing efforts of professional organizations such as the EBI and EIOD towards exerting normative pressures that would help in institutionalising BCG. At the same time, continuing the CBE efforts of building corporate governance culture within the banking sector. In addition, to call the government to reform public governance as a necessary prerequisite for corporate governance culture or Hawkamat Al-Sharikat Culture as the substantive theory has shown.

9.4. Directions of Future Research

The main objective of this thesis was to develop a substantive theory of BCG. However, it must be noted that substantive theory only interprets corporate
governance phenomenon within the context of the Egyptian banking and reflects the opinions of those included in the study. Although, the substantive theory of BCG was given more formality by further exploring the results of the substantive theory using the NIST theoretical framework, this does not automatically upgrade the theory into formal theory. This can only be achieved through studying BCG within many substantive areas. As such other researchers can study BCG in different banking sectors and expand and refine the grounded theory produced in this thesis. Moreover, they can also utilize the NIST as an alternative framework and examine how far it offers plausible explanations of BCG.

The findings of this thesis can also open the way for other researchers to study the variables identified as shaping BCG in utilising quantitative research designs.

Finally, the current events taking place in Egypt after the people's revolution on twenty-fifth of January 2011 indicates that major changes in governance and the political system are likely to occur. These changes will gain more impetus given the current dramatic wake of fighting corruption in all sectors of the economy including the banking sector. Indeed, this will certainly change the banking scene in Egypt and its corporate governance practices. Hence, this thesis provides useful directions for policy makers to tackle the obstacles that hinder BCG and as such in the future other researchers can extend the substantive theory provided in this thesis in terms of the changes introduced by the revolution. Moreover, future research can address cultural changes in the EBS in relation to BCG post the twenty-fifth January revolution.
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LIST OF BIBLIOGRAPHY


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APPENDIX 1

UNIVERSITY APPROACH LETTER
To whom it may concern

I have the pleasure to introduce Mr. Karim Sorour who is a PhD student at the University of Plymouth Business School in the UK. Mr. Sorour is researching on corporate governance issues in the Egyptian banking sector, for which he needs to have access to participants whether they are responsible employees, board directors of Egyptian banks or are affiliated to bodies that are related to the banking industry in Egypt. Mr. Sorour will ask the participants to fill in a structured questionnaire about corporate governance in the Egyptian banking sector as well as participate in semi-structured interviews. The interviewing process and the questionnaire will be conducted on Anonymous basis. Thus the collected data will be treated in the strictest confidence and no information gained will be identified with any particular person or banking organization. Moreover, all information acquired during these processes will be only available for the student and his supervisor and will not be available to any 3rd party.

I will be very grateful if you provide Mr. Sorour with all possible assistance in the interviewing process and questionnaire filling.
APPENDIX 2

BANKS REGISTERED WITH THE CENTRAL BANK OF EGYPT

At 14 may 2008
# Banks Registered With The Central Bank of Egypt At 14 May 2008

## First: Public Sector Banks:

<table>
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<th>Bank Name</th>
<th>Address</th>
<th>Registration No.</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Banque Misr</td>
<td>151, Mohamed Farid St, Cairo.</td>
<td>1</td>
<td>18/01/1958</td>
</tr>
<tr>
<td>2</td>
<td>Banque Du Caire</td>
<td>6, Dr. Moustafa Abu Zahra St., Nasr City, Cairo.</td>
<td>3</td>
<td>18/01/1958</td>
</tr>
<tr>
<td>3</td>
<td>National Bank of Egypt</td>
<td>1187, Cornich El Nile St, Cairo.</td>
<td>33</td>
<td>01/01/1961</td>
</tr>
<tr>
<td>4</td>
<td>Egyptian Arab Land Bank</td>
<td>78 Gameat El Dewal El Arabia St, Mohandessen, Giza.</td>
<td>9</td>
<td>18/01/1958</td>
</tr>
<tr>
<td>5</td>
<td>Industrial Development Bank of Egypt</td>
<td>110, El Gallas St, Cairo.</td>
<td>63</td>
<td>27/05/1976</td>
</tr>
<tr>
<td>6</td>
<td>The Principal Bank for Development and Agricultural Credit</td>
<td>110, El Ksar El Einy St, Cairo.</td>
<td>75</td>
<td>11/08/1977</td>
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</table>

## Second: Private and Joint Venture Banks:

<table>
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<th>Address</th>
<th>Registration No.</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank of Alexandria</td>
<td>49, Kaz El Nile St, Cairo.</td>
<td>2</td>
<td>18/01/1958</td>
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<tr>
<td>2</td>
<td>Commercial International Bank (Egypt) S.A.E.</td>
<td>Nile Tower 21/23, Charles Du Gaulle St., (at Giza St.), Giza.</td>
<td>54</td>
<td>13/08/1975</td>
</tr>
<tr>
<td>3</td>
<td>Blom Bank - Egypt</td>
<td>64, Mohy El Din Abu El Ezz, El Dokki, Giza.</td>
<td>70</td>
<td>24/03/1977</td>
</tr>
<tr>
<td>4</td>
<td>BNP Paribas S.A.E.</td>
<td>3, Latin America St, Garden City, Cairo.</td>
<td>74</td>
<td>14/07/1977</td>
</tr>
<tr>
<td>5</td>
<td>Suez Canal Bank</td>
<td>7,9 Abdel Kader Hamza St, Garden City, Cairo.</td>
<td>80</td>
<td>09/03/1978</td>
</tr>
<tr>
<td>6</td>
<td>Pireus Bank - Egypt</td>
<td>10, Talaat Harb St, Cairo.</td>
<td>84</td>
<td>29/06/1978</td>
</tr>
<tr>
<td>7</td>
<td>Achi United Bank - Egypt</td>
<td>1191, Cornich El Nile St, World Trade Centre, Cairo.</td>
<td>86</td>
<td>03/10/1978</td>
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<td>8</td>
<td>Audi Bank S.A.E.</td>
<td>104, El Nilb St., El Dokki, Giza.</td>
<td>85</td>
<td>29/02/1978</td>
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<td>Faisal Islamic Bank of Egypt</td>
<td>3 – 25 July St., Cairo.</td>
<td>88</td>
<td>14/06/1979</td>
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<td>10</td>
<td>Egyptian Saudi Finance Bank</td>
<td>60 Muhie El-Din Abu El Ezz El Dokki, Giza.</td>
<td>92</td>
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<td>Al Wastaniy Bank of Egypt</td>
<td>13, El Semar St, Gamseet El Dewal El Arabia, Mohandessen Giza.</td>
<td>93</td>
<td>26/05/1980</td>
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<td>12</td>
<td>National Bank For Development</td>
<td>5A, El Boursa El Gededa St., Cairo.</td>
<td>95</td>
<td>24/07/1980</td>
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<td>13</td>
<td>Union National Bank - Egypt “UNB-E”</td>
<td>57,Giza St., El Gamesa Tower, Giza.</td>
<td>101</td>
<td>15/10/1981</td>
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<td>14</td>
<td>Egyptian Gulf Bank</td>
<td>El Orman Plaza Building, 3 Ahmed Nasserin St., Giza.</td>
<td>114</td>
<td>28/01/1982</td>
</tr>
<tr>
<td>15</td>
<td>HSBC Bank Egypt S.A.E.</td>
<td>3, Abu El Fadu St., Abu El Fadu Building, Zamalek, Cairo.</td>
<td>121</td>
<td>15/07/1982</td>
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<td>16</td>
<td>Egyptian Workers Bank</td>
<td>10, Mohamed Heiny Ibrahim St, Maarouf, Cairo.</td>
<td>124</td>
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<td>Bank Name</td>
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<td>--------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>---------------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>17. The United Bank</td>
<td>106, El Kasr El Einy St., (Cairo Center Tower), Cairo.</td>
<td>Cairo</td>
<td>25/06/2006</td>
<td></td>
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<tr>
<td>21. Credit Agricole Egypt S.A.E.</td>
<td>2, 4, 6 Hassan Sabry St., Zamalek, Cairo.</td>
<td>Cairo</td>
<td>12/05/1977</td>
<td></td>
</tr>
<tr>
<td>22. Nationale Societe Generale Bank</td>
<td>Des Champellion 5, Champellion St., Downtown, Cairo.</td>
<td>Cairo</td>
<td>13/04/1978</td>
<td></td>
</tr>
<tr>
<td>23. Federal Arab Bank For Investment &amp; Development Bank</td>
<td>8, Abdel Khalek Sarwat St., (Cairo-Sky Building), Cairo.</td>
<td>Cairo</td>
<td>29/06/1978</td>
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<td>24. Housing &amp; Development Bank</td>
<td>12, Syria St., Mohandeseen, Giza.</td>
<td>Giza</td>
<td>24/09/1979</td>
<td></td>
</tr>
<tr>
<td>25. Arab African International Bank</td>
<td>5, El Saray El Kubra St., Garden City, Cairo.</td>
<td>Cairo</td>
<td>10/06/1982</td>
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**Branches of Foreign Banks:**

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<tr>
<td>2. Citi Bank N A / Egypt</td>
<td>4, Ahmed Bacha St., Garden City, Cairo.</td>
<td>Cairo</td>
<td>16/10/1975</td>
</tr>
<tr>
<td>3. Arab Bank PLC</td>
<td>50, Geziret El Arab St., Mohandeseen, Giza.</td>
<td>Giza</td>
<td>10/6/1976</td>
</tr>
<tr>
<td>5. Mashreq Bank</td>
<td>21, 23 Charles De Gaulle St., (ex. Giza St.), Nile Tower Building, Giza</td>
<td>Cairo</td>
<td>26/03/1977</td>
</tr>
</tbody>
</table>
APPENDIX 3

BANKS INCLUDED IN THIS STUDY
<table>
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<td>1</td>
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<td>3</td>
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<td>4</td>
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<td>NATIONAL SOCIETE GENERALE</td>
</tr>
<tr>
<td>6</td>
<td>ARAB AFRICAN INTERNATIONAL</td>
</tr>
<tr>
<td>7</td>
<td>BANK OF ALEXANDRIA</td>
</tr>
<tr>
<td>8</td>
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</tr>
<tr>
<td>9</td>
<td>FAISAL ISLAMIC BANK</td>
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<tr>
<td>10</td>
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<td>11</td>
<td>BNP PARIBAS</td>
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<td>SUEZ CANAL BANK</td>
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<tr>
<td>15</td>
<td>AL-WATANY BANK OF EGYPT</td>
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<td>16</td>
<td>PIRAEUS BANK</td>
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<td>17</td>
<td>MISR IRAN DEVELOPMENT BANKS</td>
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<tr>
<td>18</td>
<td>AUDI BANK</td>
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<td>19</td>
<td>BLOM BANK</td>
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<td>EGYPTIAN SAUID FINANCE BANKS</td>
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<td>21</td>
<td>AHLI UNITED BANK</td>
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APPENDIX 4

INFORMATION ABOUT PARTICIPANTS OF THE SEMI-STRUCTURED INTERVIEWS (A)
<table>
<thead>
<tr>
<th>Research site</th>
<th>Number of Participants</th>
<th>Position</th>
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</thead>
<tbody>
<tr>
<td>1 Foreign Banks</td>
<td>3</td>
<td>Bank Directors</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Executives</td>
</tr>
<tr>
<td>2 Private Domestic Banks</td>
<td>2</td>
<td>Bank Directors</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Executives</td>
</tr>
<tr>
<td>3 Arab Banks</td>
<td>1</td>
<td>Bank Directors</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Executives</td>
</tr>
<tr>
<td>4 State Banks</td>
<td>2</td>
<td>Bank Directors</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>Executives</td>
</tr>
<tr>
<td>5 International Auditing Firms</td>
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<td>Executive managers</td>
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<td>6 Governmental Officials</td>
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<td>Directors</td>
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<td>7 Central Bank Of Egypt</td>
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<td>High rank officials</td>
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<tr>
<td></td>
<td>34 Interviewee\textsuperscript{152}</td>
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<td>8 Not included interviews</td>
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<td>9 Double interviewed</td>
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<td>44 Interviews</td>
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\textsuperscript{152} In addition to 5 bad interviews with 5 interviewees who do not know what corporate governance is, and 5 interviews with the interviewees shown above who are interviewed twice. Making the total number of interviews 44 interviews.
APPENDIX 5

RELATIONSHIP BETWEEN SURVEY RESULTS AND SEMI-STRUCTURED INTERVIEWS (A) QUESTIONS FORMULATION
<table>
<thead>
<tr>
<th>Survey Significant Areas</th>
<th>Related Semi-Structured Interview questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership type</td>
<td>• To what extent does the bank’s ownership type affect its quality of corporate governance practices?</td>
</tr>
</tbody>
</table>
| shareholders and stakeholders interests | • To what extent do laws and regulations effectively promote bank’s corporate governance?  
• What are the mechanisms used by the CBE to enhance bank’s corporate governance practices?  
• On what basis does banks’ consider improving their corporate governance structures?  
• Whose interests do the bank’s corporate governance mechanisms protect? |
| Boards’ role in corporate governance practices) | • What role does the board have in the corporate governance of the bank? To what extent is this role effective?(  
• How the board ensures that board members understand their role in corporate governance?  
• What are the corporate governance mechanisms that banks utilize?  
• To what extent the bank insists on good corporate governance in the credit operations? What benchmark the bank uses in this respect?  
• What is the basis to determine the risk management policy of the bank? |
| Transparency and Disclosure | • To what extent does the accounting standards adopted enhance transparency? |
APPENDIX 6

INFORMATION ABOUT PARTICIPANTS OF THE SEMI-STRUCTURED INTERVIEWS (B)
<table>
<thead>
<tr>
<th>Research site</th>
<th>Number of Participants</th>
<th>Position</th>
</tr>
</thead>
<tbody>
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<td>1</td>
<td>Bank Directors</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Executives</td>
</tr>
<tr>
<td>2 Private domestic banks (3)</td>
<td>1</td>
<td>Bank Directors</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Executives</td>
</tr>
<tr>
<td>3 Arab banks (2)</td>
<td>2</td>
<td>Executives</td>
</tr>
<tr>
<td>4 State banks (3)</td>
<td>3</td>
<td>Executives</td>
</tr>
<tr>
<td>5 Governmental officials (1)</td>
<td>1</td>
<td>Directors</td>
</tr>
<tr>
<td>6 Central bank of Egypt (2)</td>
<td>2</td>
<td>High rank officials</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td></td>
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