The Introduction of Audit Committees and Implementation of The Corporate Governance Code in Kuwait

Souod Alazemi

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Accounting Department
Essex Business School
University of Essex

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Dedication

This thesis is dedicated

To my father Hamad Alazemi, may his soul rest in peace, who always supported and encouraged me to keep studying and seeking knowledge

To my mother Hamda Alazemi, may God bless her and keep her, for her endless and unconditional love, prayer, and motivation

To my wife, for her patience and perseverance during my difficult PhD time, and for taking care of our children when I was away from them

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Abstract

This thesis explores the introduction of audit committees (ACs) and implementation of the corporate governance code (CGC) in Kuwait. The study has five aims: (1) to investigate the reasons for the delay in issuing the ACs' regulations before the release of the CGC in 2013; (2) to explore why some companies voluntarily formed an AC while others did not; (3) to understand how listed companies perceived, experienced and responded to the CGC's introduction in 2013 and the reasons for their reactions; (4) to analyse the strategic responses that companies used when the mandatory code was introduced, which led to changing the code; and (5) to explore the interviewees' perceptions regarding the extent to which they believe that listed companies will implement the AC effectively. The data were collected using semi-structured interviews with key individuals. The institutional logics perspective was used as the theoretical framework to analyse and interpret the study's findings.

The results show that the main obstacle to implementation of CG and ACs in Kuwait is the dominance of family logic. Moreover, the reasons for the delay in issuing the regulations for ACs may be directly or indirectly due to the domination of market and family logic over state logic. The findings indicate that family, market, state, corporate and professional logics have most influence on the decision to voluntarily form ACs.

The findings also reveal that the companies guided by state and corporate logic perceived the CGC as compatible with institutional demands, while the companies embedded in family and market logic perceived it as a conflicting demand. The companies and other interested parties used compromise, defiance and manipulation as a response to the introduction of the mandatory code. Most interviewees believed that

companies will implement the ACs symbolically because of the dominance of family logic in Kuwait.

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List of Abbreviations

AC	Audit Committee
CBK	The Center Bank of Kuwait
CEO	Chief Executive Office
CG	Corporate Governance
CGC	Corporate Governance Code
CMA	Capital Market Authority
FTSE	Financial Times Stock Exchange
GCC	Gulf Cooperation Council
ICGN	International Corporate Governance Network
IFRS	International Financial Reporting Standards
ILP	Institutional Logics Perspective
KAAA	Kuwaiti Accounting and Auditing Association
KCCI	Kuwait Chamber of Commerce and Industry
KIA	Kuwait Investment Authority
KSE	Kuwait Stock and Exchange Market
MENA	Middle East and North Africa
NIE	New Intuitional Economics
NIS	New Institutional Sociology
NYSE	New York Stock Exchange
OECD	Organization for Economic Cooperation and Development
OIE	Old Intuitional Economics
PA	Principal-Agent
PIFSS	Public Institution for Social Security
SOX	Sarbanes-Oxley Act
UAE	United Arab Emirates
UK	United Kingdom
USA	United States of America

Chapter One: Introduction

1.1 Overview

Corporate scandals and fraud (e.g., Adelphia, Cendant, Enron, Global Crossing, Lucent, Sunbeam, Tyco, and WorldCom) and financial crises (e.g., East Asia's financial crisis) shed light on and underlined the weaknesses of existing corporate governance (CG) mechanisms (Arnold, 2012; Carnegie and O'Connell, 2014; Cuomo et al., 2016). According to Cotton (2002), the estimation of the loss of market capitalisation resulting from fraud committed by Enron, Global Crossing, Qwest, Tyco and WorldCom is approximately $460 billion USD. When such collapses occur and are discovered, the impact devastates not only the firm but also the confidence of investors and stakeholders in the market and economy. These corporate scandals and financial crises stimulated many international bodies (e.g. The Organisation for Economic Cooperation and Development [OECD]), the World Bank) and many developed and developing countries to issue or revise their regulations and codes to enhance CG, transparency and accountability, as well as restore investors' confidence in the financial market (e.g., Cuomo et al., 2016; Mallin, 2013; Zattoni and Cuomo, 2010).

Claessens (2006) stated that only very few scholars and shareholders in developing countries knew the meaning of CG before these crises and scandals. Since then, however, CG has become an essential consideration, not only for firms and shareholders but also for improving economic efficiency and growth, enhancing investor confidence (Pinto, 2006) and obtaining access to domestic and international financial resources (Iskander and Chamlou, 2000; The World Bank, 2005). James Wolfensohn (the former president of the World Bank) emphasises that the governance

of firms is more important for global economic growth than the government of nations. Deficiencies in CG endanger the stability of the global financial system (Claessens and Yurtoglu, 2012).

CG can be defined as the system by which firms are directed and controlled (Cadbury Report, 1992: 15). The board of directors is mainly responsible for the governance of their firm. The role of the board of directors is to oversee the actions of management and to ensure accountability, transparency and fairness in the firm's relationship with its stakeholders. To assist the boards in performing their roles and responsibilities, various committees, such as audit and remuneration, are formed.

One of the most important committees and aspects of CG is the audit committee (AC). The AC has received special attention from different corporate governance codes (CGC) and is meant to strengthen and enhance CG practices and to improve investor confidence. Introducing or improving regulations regarding ACs is one of the first things that regulation bodies around the world do to restore stakeholders' confidence. For instance, in the United States, ACs were introduced after the fraud scandal of McKesson and Robbins Inc. in the late 1930s, and in the United Kingdom, ACs were formed after the failures of Maxwell and BCCI in the late 1980s (e.g. Birkett, 1986; Collier, 1996; Fichtner, 2010). In developing countries, ACs were introduced for similar reasons. ACs became mandatory in 1989 for all listed firms on Singapore after the failure of Pan Electric Limited. The Asian financial crisis of the late 1990s had a large influence on the introduction of ACs in some Asian countries (Rochmah and Ghazali, 2012). The AC is arguably the most significant of the subcommittees (Mallin,

2010), and it is a powerful mechanism for improving GC (The Cadbury Committee, 1992).

The importance of the AC stems from its assigned roles and responsibilities. The AC is primarily responsible for ensuring the quality and integrity of financial reporting, for maintaining the independence of external auditors and for monitoring, evaluating and enhancing the effectiveness and independence of a firm's internal control. Unlike other board committees, many regulators around the world (e.g. Netherlands, Denmark, France, India, Ireland, the Kingdom of Saudi Arabia, Italy) have made the AC mandatory for listed firms, even though these countries adopt the "comply or explain" approach (OECD, 2017).

1.2 Research motivations, aims and questions

Kuwait is a leading country in terms of securities and business regulations. Unlike other Gulf Cooperation Council (GCC) countries and most Middle East countries, Kuwait is one of the most liberal countries in terms of political rights, and it has the most democratic political system in the Arab Gulf region (Westall, 2013) [1]. It was the first and only country in the GCC to have active legislature and a supervisory parliament since 1963. Kuwait's parliament is considered one of the strongest parliaments in the Middle East and the most independent parliament in the Arab world (Brown, 2001; Kinninmont, 2012).

[1] The GCC countries have consultative councils. However, these councils have no power to legislate nor supervise.

Kuwait was also the first country in the world to establish a sovereign wealth fund (1953). Its stock market is one of the oldest in the Middle East (Al Sayegh and Azhar, 2018), and Kuwait was the first member of the GCC in 1983 and it was one of the first countries in the world to adopt the International Financial Reporting Standards (IFRS)/ International Accounting Standard (IAS) (1991). It was also the first in Gulf countries to require financial reporting to be audited by external auditors from different auditing firms beginning in 1995. In fact, while just one external auditor is required in most countries, Kuwait requires two (Alfraih, 2016).

Kuwait's economy suffered from a number of financial crises and scandals (e.g. the AL Manakh crisis in the 1980s, the financial crisis in 2008). One would expect, then, that Kuwait, which has an organised market, would be among the first countries to issue regulations or recommendations regarding ACs. Surprisingly, it was the last country to issue regulations/codes/recommendations regarding ACs before the release of the CGC in 2013. The first aim of this study is to investigate the reasons for this delay in issuing regulations/codes for ACs in Kuwait.

A number of firms listed on the Kuwait Stock Exchange (KSE) had voluntarily formed an AC, although there were no recommendations, regulations or professional requirements regarding the formation of ACs in Kuwait. According to Al-Shammari (2014), 42 (38.5%) of 109 non-financial companies listed on the KSE in 2012 had voluntarily formed an AC. Another study conducted by Alanezi and Albuloushi (2011) found that of the 68 firms listed on the KSE in 2007, 29 (42.6%) had a voluntary AC. However, these studies did not examine why these firms formed an AC. Accordingly,

the second aim of this thesis is to find out, in the pure voluntary environment, the forces that explain why some firms voluntarily formed an AC while others did not.

In June 2013, the Capital Market Authority (CMA) in Kuwait issued the CGC. It was first to be applied to listed firms. This code was based on a mandatory approach. Under a mandatory approach, firms have no option but to comply with all the requirements in the code. However, listed firms and other interested parties (The Kuwait Chamber of Commerce and Industry) resisted this CGC. As a result of the response of firms, the CMA postponed the application of the CGC for eighteen months. In November 2016, the CMA replaced the mandatory CGC with a new code based on the principle of "comply or explain." Under this model, firms have to choose between complying with the requirements or providing an explanation for their lack of compliance.

Aguilera and Cuervo-Cazurra (2009) state that the mandatory code is rarely found in CGCs. Moreover, most, if not all, developing countries implement the 'comply or explain' approach in the first place. Therefore, the cases of a developing country implementing a mandatory code, "the US style", are very rare. Interestingly, there is no country that shifted, as a response to firms' reactions, from the mandatory to the "comply or explain" principle in relation to the CGC before the implementation of the code took effect. Rather, there are some developing countries (e.g. Bangladesh and Pakistan) that shifted from the 'comply or explain' to the mandatory code, and such shifts took place after, rather than before, the implementation occurred. In other words, in previous cases, the change from one approach (comply or explain) to another (mandatory) occurred after a period of implementation. For instance, the Bangladesh Securities and Exchange Commission changed the CGC from the "comply or explain"

approach issued in 2006 to the mandatory code in 2012 to improve the CG practices (Ahmed and Uddin, 2018). In the case of Bangladesh, the reason which stimulated the resort to the mandatory approach was the desire to improve CG practices after the failure of the "comply or explain" approach. In Kuwait, the case was the other way around; the shift was from the mandatory to the 'comply or explain' code and the change stemmed from firms and interested parties' reactions even before the actual implementation of the code. Therefore, it is very interesting and important to explore the implementation process of the CGC in the State of Kuwait in order to understand why and how the change occurred. In order to do so, the third aim is to understand how the listed firms perceived, experienced and responded to the introduction of the CGC in 2013 and the reasons for their reactions. The fourth aim of this thesis is to analyse the strategies that firms in Kuwait used to respond to the mandatory code, which led to changing it.

Although the new CGC is based on the principle of 'comply or explain', there are some mandatory requirements in the code. One of these requirements is the formation of an AC. This means that all listed firms must form an AC. Accordingly, the final aim of this thesis is to explore the perceptions of the interviewees regarding the extent to which they believe that listed firms will implement the AC effectively. In general, this study does not examine the AC process and its effectiveness per se unlike previous works (e.g. Gendron and Bedard 2006; Turley and. Zaman, 2007). Rather, it aims to explore the opinions about these aspects based on interviews with individuals in the AC and the governance process in Kuwait.

In sum, this thesis aims to explore and investigate the implementation of CGC and the introduction of AC in the State of Kuwait. In order to achieve these general aims, this thesis attempts to answer the following research questions:

RQ1: What were the reasons for the delay in issuing regulations/codes/recommendations for ACs in Kuwait until 2013?

RQ2: What are the forces that explain why some firms in Kuwait voluntarily formed an AC while others did not?

RQ3: How did listed firms in Kuwait perceive, experience and respond to the introduction of the CGC in 2013?

RQ4: Why did listed firms in Kuwait perceive, experience and respond differently to the CGC?

RQ5: What are the strategies that firms and the Kuwait Chamber of Commerce and Industry (KCCI) in Kuwait used to respond to the mandatory code that led to changing it?

RQ6: What are the perceptions of the main players (external/internal auditors, regulators, Kuwait Chamber members, professional bodies and listed companies) in Kuwait's economy regarding the implementations of ACs in the State of Kuwait?

1.3 Significance of the study

This thesis differs from other studies in several aspects. First, most of the studies on ACs have tried to find the reasons behind the introduction of AC regulations (e.g. financial crises or frauds), while little attention has been given to the reasons behind the delay in issuing AC regulations/code/recommendations in countries like Kuwait with a reputation for a highly organised market. This study, therefore, aims to fill this

gap by exploring the reasons behind the delay in issuing AC regulations/code/recommendations in Kuwait.

Secondly, in general, most AC prior studies were largely conducted in developed economies (Al-Malkawi et al., 2014). In particular, most of the previous research that examined the reasons behind the voluntary formation of ACs were primarily conducted in developed economies (e.g. in the USA: Eichenseher and Shields, 1985; Menon and Williams, 1994; Pincus et al., 1989; in the UK: Collier, 1993; in France: Piot, 2004; in New Zealand: Bradbury, 1990; Belgium: Willekens et al., 2004; in Australia: Chen et al., 2009).Thus, as far as the researcher is aware, the literature has given little attention to the voluntary formation of ACs in developing countries[2]. Developing countries differ greatly from developed countries in their culture, history, politics and business environment and infrastructure. The CG issues in developing countries differ from those in developed countries because of an inadequate protection of the rights of general shareholders (Claessens and Fan, 2002; La Porta et al., 2000; Claessens and Yurtoglu, 2013; The United Nations Conference on Trade and Development, 2010) and a weak capital market (Claessens and Yurtoglu, 2013). Futher, rich and powerful families and the state dominate the ownership of most firms in developing countries (Claessens et al., 2000; Claessens, 2006; Lins 2003). There also appears to be no studies that investigate why some firms voluntary form an AC in Middle East and North Africa (MENA) countries. The current study aims to fill this gap by exploring the forces behind why some firms voluntarily formed an AC while others did not in an emerging economy such as Kuwait.

[2] Voluntary formation means the formation when there is no legal requirement nor recommendations.

Thirdly, all previous studies in this regard have opted for a quantitative approach, whereas the current study uses a qualitative approach to answer this research question. Generally speaking, many researchers have called for the use of qualitative methods to study topics related to CG and ACs (e.g. Ahrens et al., 2011; Beasley et al., 2009; Carcello et al., 2011; Ghafran and Sullivan, 2013; McNulty et al., 2013; Turley and Zaman, 2004, 2007; Yasin et al., 2014). For example, McNulty et al. (2013) show that qualitative research is largely absent in emerging markets, particularly in the Middle East. Qualitative studies are considered suitable for obtaining an in-depth understanding of individuals' motivations, rationales, actions and behaviours as well as the institutional setting (Reay and Jones, 2015), and they can provide CG researchers with deep, rich knowledge of the phenomena under exploration and a greater understanding of the relationships among main stakeholders (e.g. directors, investors, managers and regulators) during the processes leading to decision-making (McNulty et al., 2013). This thesis aims to contribute to the literature on CG and ACs by adopting an interpretative approach and using semi-structural interviews for data collection. The interviewees included board members, AC members, regulators, portfolio managers, an ex-chairman of KSE, external and internal auditors, creditors and academics. Further the findings from the interviews were supplemented by some secondary data (e.g. interviews conducted by newspapers, reports in newspapers), Kuwait Chamber for Commerce and Industry (KCCI) Statement in 2014 and Kuwait General Assembly website and documents (e.g. interpellations of the Minister of Commerce and Industry[3]).

[3] Interpellation is when a parliament member formally questions a government minister in parliament concerning an action or policy. It may lead to making a no-confidence motion against the minister.

In terms of theories, the most dominant theory used in studying CG and ACs is the agency theory (Bédard and Gendron, 2010; Cuomo et al., 2016; Gendron, 2009; Ghafran and Sullivan, 2013; Guthrie and Parker, 2011; Parker and Northcott, 2016). Cuomo et al. (2016) indicate that the second-most dominant theory after the agency theory in CGCs studies is institutional theory. The central focus of agency is that both the principal and the agent always act in their own self-interest. The under-socialised view of human behaviour means each actor is considered economically rational and marginally influenced by social context. The current study argues that this view is too narrow (Aguilera et al., 2008; Christopher, 2010; Sarens et al., 2013) because it disregards the fact that interest is partially affected by the social environment and that motivating actors depends on their social and structural positions in the market. More importantly, many researchers in the field of CG argue that agency theory is insufficient to understand major CG issues in emerging and developing countries because of the high ownership concentration and the weak and inefficient capital market (Al-Hiyari, 2017; Htay et al., 2013; Siddiqui, 2010). The institutional theory assumes and focuses on homogeneity and isomorphism and ignores heterogeneity and practice variation (Thornton and Ocasio, 2008). As such, many researchers in governance (e.g. Cuomo et al., 2016; Parker and Northcott, 2016) call for using different theoretical lenses to offer new interpretations and a better understanding of CG. This thesis uses the institutional logics perspective (ILP), which has not previously been applied to the study of ACs. This thesis seeks to contribute to the literature of CGCs and AC by using ILP to provide new interpretations and a better understanding of governance codes.

The term ‘institutional logic’ was first coined by Alford and Friedland (1985). Friedland and Alford (1991) argue that there are various institutional orders that shape

and comprise any society. Institutionalists (e.g., Thornton and Ocasio, 1999; Friedland and Alford, 1991; Thornton et al., 2012; Thornton and Ocasio, 2008) assume that the behaviour of individuals and organisations is shaped by institutional orders. These institutional orders are: community, corporation, family, market, profession, religion and state (Thornton et al., 2012). Institutional logics are general cultural models that function as guiding principles to direct the actions and behaviour of individuals and organisations (Thornton et al., 2012; Friedland and Alford, 1991; Thornton and Ocasio, 2008). Thornton and Ocasio (1999: 804) define institutional logics as "the formal and informal rules of action, interaction and interpretation that guide and constrain decision makers". Friedland and Alford (1991) argue that rationality is a relative notion depending upon the place of organisations and individuals in one or more of the institutional orders of the interinstitutional system. In other words, there are multiple rationalities since there are a number of institutional orders in any society, and what is considered a rational action or behaviour under one institutional order might be considered irrational under another.

Institutional logics is a perspective that assumes institutional heterogeneity, unlike neoinstitutional theory, in the form of multiple institutional orders prevalent in any society. Therefore, the presence of multiple institutions and multiple logics represents the heterogeneous context in any society that can explain why certain practices are/are not adopted. In other words, some firms may perceive the formation of AC as rational and justifiable while other may not, since they are embedded in different institutional logics. It is believed that the ILP is suitable for understanding the heterogeneity behaviour of the Kuwaiti listed firms in the (non) adoption of voluntary ACs. This is because the institutional logics perspective leads decision makers to focus on certain

sets of problems and solutions (Ocasio, 1997; Thornton et al., 2012) and, therefore, they guide organisations' decisions as to whether to implement certain practices (Shipilov et al., 2010). It is also useful to understand why the listed firms in Kuwait experience and perceive the introduction of the CGC differently. Finally, the ILP was founded in western society and most of the studies were in developed countries, particularly in the USA (Greenwood et al., 2010). Only a few studies of ILP have been conducted in developing countries. Thus, another theoretical contribution of this thesis would be to the ILP literature by finding out the appropriateness of applying this framework to an eastern society and developing country since the studies using ILP in these countries are rare (Sarma, 2013).

According to Mahadeo and Soobaroyen (2016), it is not clear how CG requirements adapt and evolve over time in developing countries. Moreover, Ahmad and Mahmood (2015) call for studies to investigate the political process of development and implementation of CGCs in developing countries. In this respect, Cuomo et al. (2016) argue that for a better understanding of the roles of different parties (like government authorities, directors' associations, large shareholders, institutional investors, and other parties), a study is needed that focuses on the process of codes development and investigates the political process which leads to developing and shaping the content of the codes. Moreover, many researchers (e.g. Cuomo et al., 2016) stated that despite the existing studies on the approaches to the implementation of CGCs (i.e., voluntary regulation versus mandatory), there is a need for more studies in developing countries. Furthermore, Ahmed and Uddin (2018) call for studies that further investigate actors' strategic choices and actions in processes of restricting institutional change in order to better understand the development dynamics in a CG field with multiple and often-

conflicting logics. Therefore, this thesis aims to fill these literature gaps by examining the implementation of the CGC in the State of Kuwait.

Kuwait offers an ideal opportunity to fill these gaps for a number of reasons. First, Kuwait is still a developing country, and the Kuwait Stock Market was just recently (September 2018) listed on the FTSE Russell index for emerging markets. Second, the chairman of the CMA described the introduction of the CMA and CGC as the largest legislative and regulatory achievement in the history of the State of Kuwait (CMA, 2015). Further, the implementation of the CGC and ACs in Kuwait was in progress while the researcher was collecting the data for this study. The actual implementation of the code started in June 2016 and the pilot study took place in October 2016. Thus, the researcher had the opportunity to record the fresh perceptions of listed firms and stakeholders. Little research has been conducted in relation to what happens during the application of the CGC and ACs, so this study could prove very important for policy makers in Kuwait to understand the behaviour of listed firms and stakeholders during this time. Third, the CGC in Kuwait was replaced as a response to firms and the reactions of other interested groups even before the implementation took place. Hence, this thesis will endeavour to shed light on and explain the political process leading to the development of the code and will explore and clarify why a given approach (the mandatory one in the case of Kuwait) does not succeed when implemented in one country but works in others (Ahmed and Shaila, 2018).

1.4 Structure of the thesis

This thesis consists of eight chapters. The organisation of the thesis is as follows:

Chapter one: this chapter is an introduction to the thesis and provides a brief background about the research, research aims and significance, a brief explanation of the research methodology and theoretical framework and finally the structure of the thesis.

Chapter two: this chapter is about the context of the research, the State of Kuwait. The aim of this chapter is to provide background about the social, economic and political developments in Kuwait. Also, in this chapter, the development of regulations and regulators of the stock market activities will be reviewed and discussed.

Chapter three: this chapter reviews the existing literature and studies relevant to the research aims. This chapter is divided into two sections. The first section is related to CGCs. It discusses and reviews the definitions of CG; then, it moves to discuss the background of CGCs around the world and the approaches to code implementation (voluntary and mandatory codes). Moreover, this section highlights the CGCs models around the world and reviews the related studies to evaluate the effectiveness of each approach. The final part in this section discusses the studies related to firms' responses to the introduction of mandatory codes. The second section of this chapter reviews the studies on ACs. It begins with the background and development of AC regulations worldwide. Then, the roles, responsibilities and importance of ACs are reviewed. This will be followed by a review of the studies related to the factors and incentives leading firms to form voluntary ACs. The chapter concludes with a review of studies on the effectiveness of ACs and a discussion of the main factors affecting the effectiveness of ACs.

Chapter Four: this chapter presents a discussion of the theoretical framework used in the study. It starts with a discussion of the main theories, in the literature, of CG and ACs. Then, the main assumptions of ILP are provided and explained. Before the conclusion, the reasons why the ILP is suitable to achieve the aims of the study will be provided.

Chapter Five: this chapter is the methodology chapter, which aims to provide the philosophical position adopted in the thesis, the research methodology and the method of data analysis.

Chapter Six: This chapter provides the findings and a discussion of two of the research questions. The first section offers the findings and the discussion related to the reasons behind the delay in issuing AC regulations/codes/recommendations in Kuwait. The second section provides the findings and discusses the forces that led some firms to voluntarily form an AC, while others did not, before the issuance of the CGC. Finally, the conclusion will be provided.

Chapter Seven: this chapter provides the findings and discussion of the remaining research questions. It is divided into two main sections. The first aims to explain how and why listed firms perceived, experienced and responded differently to the introduction of the CGC in 2013. Additionally, the section analyses the strategic responses that firms used to respond to the old and new CGCs. The second section gives an insight into the perceptions of the interviewees regarding the extent to which they believe that listed firms will implement ACs effectively.

Chapter Eight: this chapter summarises the research findings and highlights the research limitations, practical and policy-making implications, contributions and recommendations for future research.

Chapter Two: The Kuwaiti Context

2.1 Introduction

In any culture, tradition and history are the source of most grounded ideas and values. Thus, the aim of this chapter is to provide a background about the Kuwaiti context. The social, political and economic circumstances are very interrelated in Kuwaiti history. Therefore, this chapter starts with a discussion of the social background. Following that, the political and economic aspects of the state of Kuwait are explained. Under this section, the development of business activities in Kuwait is reviewed. Then, the development of securities regulations and regulators is evaluated, and the CG regulations and the introduction of the CGC is analysed. Before the conclusion, the ownership structure of companies in Kuwait is described.

2.2 Kuwaiti background

Kuwait is a member of the Gulf Cooperation Council (GCC). Bordered by Iraq from the north, Saudi Arabia from the south and the west, and the Arabian Gulf from the east, Kuwait comprises an area of 18,000 square kilometres. Kuwait's population in 2019 was 4.81 million, 1.4 million of which were Kuwaiti citizens, while the rest were non-Kuwaiti (Kuwaiti Public Authority for Civil Information, 2019).

2.2.1 Social aspect

Kuwaiti society is considered both tribal (Welsh and Raven, 2006) and collectivist (Almutairi and Kruckeberg, 2019). The Kuwaiti people are more concerned about the needs of the group than of the individual which strengthens the rule of obligations over

that of rights. The family in Kuwait is the essential building block of society (Torstrick and Faier, 2009). The culture is highly family-oriented (Almutairi and Kruckeberg, 2019), with the family the most important institution. Al-Mekaimi (2003) states that the family in Kuwait is a cohesive establishment, with members assisting and supporting each other, cooperating in times of hardship and often uniting efforts for business ventures. The family in Kuwaiti not only comprises nuclear family members but extends to include distant relatives, neighbours, friends and fellow tribe members (Al-Thakeb, 1985). In Kuwait, when someone mentions his or her family, they are likely referring to the entire tribe, not only their immediate family members (Torstrick and Faier, 2009). Commitment to family and friends is essential, and loyalty is of the utmost importance (Almutairi and Kruckeberg, 2019).

2.2.2 Political aspect

Kuwait was founded in the early eighteenth century when clans of the Alanezi tribe (Bani Utub) migrated from Saudi Arabia. They felt it necessary to elect a leader among themselves. The seniors of Bani Utub chose Sabah Al-Sabah (Sabah the first) because of his wisdom and reputation, not due to his wealth or power (Kuwait National Assembly, 2019). Thus, the Al-Sabahs became the royal family based on the level of democratic participation at that time, and the Al-Sabah family have been the rulers of Kuwait till today. Kuwait has undergone several attempts at establishing democratic participation in its history, as shown in the table below:

Year	Events	Comments
1921	Sheikh Ahmed Al-Jaber approved the establishment of the first consultative council in Kuwaiti history.	This council marked a new era in Kuwaiti history as it was an attempt by the Kuwaiti people to participate in the governing of the country, but it ended after two months due to disputes among the members.
1932	The second attempt at democracy was the	Sheikh Ahmed dissolved the council.

	election of a Municipality Council.	
1938	Sheikh Ahmed called for the election of a Legislative Council (Sagher, 2004).	To organise and regulate the country, the council enacted basic laws, which were considered the first written legal documents in Kuwaiti history. The council was dissolved after only six months by the ruler.
1961	Sheikh Abdullah called for the election of a Constitutional Assembly	It comprised from 50 elected members with aim to write the country's constitution
1962	The assembly drafted a constitution, which Sheikh Abdullah approved.	Sheikh Abdullah approved the draft and Kuwait become a constitutional monarchy which the parliament is democratically elected by its citizens. The ministers are appointed by the prime minister, who is appointed by the ruler, who must be from the Al-Sabah family.
1963-now	The first election for parliament. The parliament is the highest legislative and monitoring authority in Kuwait	The parliament comprises 50 elected members, and elections are held every four years. Men and women have the right to vote. The members of parliament have the power to legislate and supervise the work of minsters and the prime minster. Parliament members can interpellate prime minster and minsters, which can lead to a vote of no confidence. The parliament must approve the crown prince, who is the future governor of the state.

After Sheikh Abdullah Al-Salem became the ruler in 1950, the country's political and economic conditions improved dramatically. In 1961, Kuwait became independent by cancelling a protection agreement with Britain, which it changed into a friendship and cooperation agreement.

2.2.3 Economic aspect

Before the discovery of oil, the economic system was basic, and the state budget depended on tax contributions from merchants (Al-Qenae, 1968). Kuwait's economy was dependent on three major activities: trading and carrying goods, fishing, and exporting pearls (Al-Sabah, 1980; cited in Almujamed and Tahat, 2015).

After the discovery of oil, the base of Kuwait's economic structure changed from merchants' taxes to oil exports. Oil was discovered in 1938, and the first oil shipment was exported in 1946 (Al-Yaqout, 2006). Kuwait now possesses the world's sixth largest oil reserves. To diversify state revenues, the government established the Kuwait Investment Authority (KIA) in 1953 with the aim of investing surplus oil revenues in

both domestic and international markets (Kuwait Investment Authority, 2014). It is the oldest sovereign wealth fund in the world and is currently ranked as the world's fourth largest sovereign wealth fund, with assets of $592 billion (Sovereign Wealth Fund Institute, 2018).

The business activities of the merchant class also changed from basic and traditional activities to modern business ones. The first bank in Kuwait, the National Bank of Kuwait, was established in 1952 and was followed by the establishment of many firms. In 1959, the merchant class founded the Kuwait Chamber of Commerce and Industry (KCCI), considered the oldest and most powerful professional body in Kuwait (Moore and Salloukh, 2007).

2.3 Regulation and regulators of securities' activities

There are two periods in Kuwait regarding the regulation of securities: pre and post the foundation of Capital Market Authority (CMA). Before the foundation of CMA, there were four major agencies that supervised and managed the listed and unlisted firms in the State of Kuwait, namely the Ministry of Commerce and Industry, the Central Bank of Kuwait, the CMA, and the KSE. The MCI is responsible for all the firms, listed and unlisted, which operate in the State of Kuwait. The CBK oversees the financial institutions, such as banks, insurance companies and investment companies, while the CMA supervises and regulates the companies listed on the KSE. The four bodies will be discussed in detail in the following sections.

2.3.1 Ministry of Commerce and Industry (MCI)

The MCI was founded in 1963 following the issuance of the Amiri Decree. The MCI is the head of all the agencies involved in business and trading activities. In addition, the CMA is under the supervision of the minster of the MCI. The MCI has issued a number of laws and resolutions that govern business activities and the accounting and auditing professions, such as Company Law No. 15 (1960) and its amendments, External Auditing Law No. 5 (1981), and New Ministerial Resolution No. 18 (1990). According to Ministerial Resolutions No. 18 (1990) and No. 101 (2008), all companies in Kuwait are obligated to prepare their financial statements in accordance with the IFRS, and the external auditor is to use the ISA in auditing the financial reports.

2.3.2 Central Bank of Kuwait (CBK)

The CBK was founded by virtue of Law No. 32 (1968). The CBK is responsible for regulating, supervising and licensing the investment firms and financial institutions that operate on the KSE. The firms under the supervision of the CBK are obligated to prepare financial reports in accordance with the IFRS. In addition, all firms must submit their financial reports to the CBK within three months of the close of their financial year. Furthermore, two different external auditors, who must meet the requirements set by the CBK, are required to audit the financial reports.

2.3.3 Development of trading activities and Kuwait's stock exchange

Trading activities in Kuwaiti companies started with the establishment of the National Bank of Kuwait (NBK) in 1952. This was the first initial public offering (IPO). It was then followed by the National Cinema of Kuwait in 1954, Kuwait Airways in 1956 and Kuwait Oil Tankers in 1957 (cited in Almujamed et al., 2017; Al-Shamali, 1989). As a

result of the increase in these activities, the MCI issued the first Company Law No. 15 in 1960. This law aimed to organise and regulate the formation of new firms and organise the issuance of securities and IPO in Kuwait. After that, the Law No. 32 in 1970 was issued to regulate trading securities for public companies. This law was a very crucial milestone in the development of securities trading in Kuwait. It is considered the first general regulator of trading securities (Kuwait News Agency, 2004). In 1971, the MCI issued resolution No. 10 which assigned the task of organising and supervising the trade of securities to the Division of Securities in the MCI. In 1972, the MCI established the KSE. In 1976, the MCI decided to replace the Securities Division with the Market Committee (Almujamed and Tahat, 2015). This committee was responsible for the supervision, regulation, management and development of the market (Mahmoud, 1986).

The KSE was formally established in August 1983 after the issuance of an Emiri Decree. According to this Decree, the KSE is an independent body managed by the Market Committee and executive management. The KSE also plays a very significant role in the Kuwait economy. KSE is considered to be the first stock exchange market in the Gulf countries and the second biggest market in the region.

According to article No 5 in this Decree, the Market Committee comprises 11 members, and these include the chairman of the Market Committee, who is the Minister of Commerce and Industry, the Vice President, who is the Director of the KSE, and a member from each of the CBK, the MCI, and the Ministry of Finance. This committee should also have four members from the KCCI; of these, one must be from a brokerage

firm. Additionally, two experienced and competent members are selected by the Council of Ministers based on nomination by the Minister of Commerce and Industry.

In July 2014, the KSE decided to privatise itself through an IPO as outlined in Article No. 33 of CMA Law No. 7 (2010); the exchange became a private firm with a capital valuation of $213 million. The first board of directors of the firm was selected and comprised of eight members: five members were chosen by the authority and the rest were independent members. Under this law, 50 percent of the firm's stocks were offered to listed firms on the KSE, while the rest were offered to Kuwaiti citizens. The KSE currently has four markets including the official, parallel, forward and option markets. The KSE consists of 205 listed companies with a total market capital of around $100 billion distributed into 15 sectors (KSE: Bulletins, 2016). There are a number of market makers, as well as 14 brokers registered in Kuwait (*ibid*). According to Ministerial Resolutions No. 18 (1990) and No. 101 (2008), all listed companies in the KSE are obligated to prepare their financial statements in accordance with the IFRS, and the external auditor is to use ISA in auditing the financial reports. Up until 2010, the main roles of the KSE were to organise and regulate trading activities. However, those responsibilities were shifted to the CMA on February 28, 2010 (KSE, 2016), while the role of the KSE changed to managing and operating the stock exchange.

2.3.4 The Capital Market Authority (CMA)

Many and strong criticisms arose from academics, investors and international bodies (e.g., International Monetary Fund [IMF]) over the securities regulatory systems in Kuwait. For instance, the IMF (2004) argued that the regulations put forth by these bodies, and their responsibilities, often overlapped, which led to confusion and

compromised the effectiveness of the rules and their implementation. The IMF suggested that a single, independent regulatory body should be established to update and eliminate all the contradictions of the many existing regulations.

In 2010, the Kuwait government decided to reform the financial and economic aspects of the securities regulatory systems in Kuwait by issuing Law No. 7 (2010) and establishing the CMA. The main purpose of founding the CMA was to unify the regulation and supervision of the securities and capital markets in the State of Kuwait, to reduce the overlap in tasks regarding both listed and unlisted firms. Nowadays, the majority of listed firms in the KSE are under the supervision of the CMA. For instance, investment companies which were under the supervision of the CBK are now under the supervision of the CMA. Article No. 3 described the aims of the CMA as follows: to regulate and supervise the securities' activities and fulfil the principles of transparency, fairness and competency; to ensure compliance with its regulations; to prevent conflicts of interests and the use of insider information; to improve investor protection; and to increase public knowledge of securities' activities and of the risks, benefits and obligations resulting from investments.

The CMA is managed by a board called the Board of Commissioners, which is comprised of five commissioners. The Minister of Commerce and Industry nominates these members to the Council of Ministers. The commissioners have to be Kuwaiti, and according to Article No. 27 (2010), employees and commissioners of the CMA are not allowed to conduct any business activities or act as guardians, agents or custodians of the authority they represent.

2.4 Accounting and auditing professions in Kuwait

The Kuwaiti Accounting and Auditing Association (KAAA) was founded in 1973. There are two types of memberships: full membership and associate membership. Only Kuwaiti nationals holding a bachelor's degree with a major in accounting are accepted for full membership. Non-Kuwaitis, or those with two years accounting diplomas, are accepted as associate members. However, the KAAA does not have the power to set rules for the profession.

2.5 Corporate Governance (CG) in the State of Kuwait

Before the issuance of CGC, there were no laws, codes or recommendations about CG practice. However, the main law that regulated the business activities in Kuwait is Company Law No. 15 (1960) and its amendments. This law just mentioned a few practices of CG. According to Article 146 of this law, companies should follow the unitary board of director structure, and board members are elected by the AGM in a secret ballot. According to article 145, the board of directors can be comprised of only executive directors. According to article 138 of the Companies Law, the minimum number of directors is three, but this law did not mention the maximum number of directors. This law had no provisions for splitting the role of chairman and CEO. Therefore, it was allowed for one person to hold both positions. Furthermore, there was no mention of independent members neither in this law nor in any other law or regulation. In addition, the law was silent about the formation of board committees. There was also no mention about the disclosure under this law or any other laws. Most importantly, the listing requirements[1] on the KSE did not include anything about CG.

[1] The listing requirements were: the minimum firm capital is 10 million KD and must be paid in full; the company has achieved a net profit in the last two financial years, which must be at least 7.5% of its.

The first attempt to introduce CG codes in Kuwait was in 2004 by the CBK. However, this was just a recommendation, not an obligation. Then, in 2012 the CBK issued its codes and obligated all listed companies under its supervision to comply with the codes. Furthermore, the CMA issued CGC in 2013. It was proposed that all the firms, listed or unlisted, under the supervision of the CMA should apply the codes by December 31, 2014. This code was based on the mandatory principle. However, due to firms' reaction and response, the CMA decided to postpone the requirement until June 2016. Most importantly, several criticisms arose from professional bodies (e.g. KAAA and the Kuwait Chamber of Commerce and Industry) and practitioners on the code. As a result, in 2015 the CMA decided to replace it with a new code that is based on the principle of "comply or explain".

All listed companies on the KSE in addition to unlisted limited liability companies licensed by the CMA had to follow the "comply or explain" approach by June 2016 (Article No. 1-3). In the same article, firms under the supervision of the CBK and non-Kuwaiti firms listed on the KSE are exempted and not obligated to follow this code.

Although the new code, which comprises 13 rules, is based on the principle of "comply or explain", there are a number of rules in it that are mandatory, namely article No 2-3 in the first rule (independent members in the board of directors); rule No.4 (Safeguard the Integrity of Financial Reporting); Rule No.5 (Apply Sound Systems of Risk Management and Internal Audit); Rule No.7 (Ensure Timely and High Quality

capital; 30% of the company's capital must be distributed to a number of shareholders; the approval of the General Assembly of the Company must be obtained to list the Company's shares on the KSE.

Disclosure & Transparency); and Rule No.8 (Respect the Rights of Shareholders). Article No 2-3 in the first rule in the code is mandatory, which deals with the independent members in the board of directors. According to this article, the board of director must be comprised of at least one independent member but no more than half of the board should be independent. Rule No. 4 deals with safeguarding the integrity of financial reporting. In order to achieve this aim, the firm's accounts and financial statements are reviewed and supervised by the AC, and the independency and integrity of the external auditor are safeguarded. In this rule article 5-5, the board should form an AC to ensure the integrity and soundness of financial reporting and internal control system. Rule No.5 requires firms to have or establish an office / department / independent unit for risk management and a risk management committee to identify, measure, and monitor the risks associated with the firm's activities. Rule No.8 aims to improve the timing, quality, and credibility of financial information, which assists in improving investors' decision-making and confidence. Rule No.8 describes the general rights of shareholders, guarantees harmony between the shareholders' and company's aims, and improves shareholders' confidence in the efficiency of the system set in place for safeguarding their rights.

After reviewing CGC in November 2015, it can be noticed that the new version is a mix of UK code principle "comply or explain" in most parts and the USA code system "mandatory" on some elements of the code. Two of the committees in the boards are mandatory, namely the AC and Risk Management Committee.

2.5.1 Audit committee

Although the code of CG is based on "comply or explain", the AC is exempted from this approach as part of Rule No.4. Thus, it is obligation on all firms under the CMA supervision to have an AC. Article No 5-6 (2015: 16) describes the features of the AC as follows:

- The boards should form an AC that comprises at least three members, at least one of whom must be independent;
- The chairman of the boards and executive members are not allowed to be members of the AC;
- At least one member in the AC should hold an academic qualification and/or professional experience in accounting and finance, and it is permissible to rely on external expertise after the approval of the boards;
- The boards should determine the membership tenure of the committee members, and the mechanisms of its function;
- ACs can consult an independent external consultant at the expense of the firm;
- The AC should meet at least four times annually and once quarterly;
- The AC should hold meetings with the external auditor on a regular basis and at least four times with the internal auditor, whereby both the external and internal auditors are permitted to request a meeting with the AC whenever deemed necessary without the attendance of executive management.

Article No. 5-7 (2015: 17) explains the roles and responsibilities of the AC:

- To review the periodic financial statements of the firm before being presented to the boards and raise opinions and recommendations to the boards in this

regard, in order to guarantee the fairness and transparency of financial statements;

- To make suggestions regarding the assignment, resignation and remuneration of the external auditor, and to review the external auditors' appointment letters and safeguard their independence;
- To follow up the external auditor’s work and guarantee that no services other than those relating to auditing are provided to the firm;
- To review the external auditor’s comments regarding the firm's financial statements and follow up on their status;
- To review the accounting policies used and provide the boards with opinions and recommendations in this respect;
- To evaluate the adequacy of the firm's internal control systems in place and prepare a report including the opinions and recommendations in this respect;
- To supervise the firm's internal audit department in order to ensure its effectiveness in accomplishing the functions and duties given by the boards;
- To make a recommendation on the appointment, deposing, transfer and assessment of the chief of internal auditing, and the performance of the internal audit department;
- To review and approve the audit plans proposed by the internal auditor and give feedback;
- To review the results of the internal audit reports and ensure that the required corrective actions were taken regarding the comments stated in such reports;
- To review the results of supervisory units’ reports and ensure that necessary measures were taken;

- To ensure that the firm is in line with relevant policies, laws, by-laws and Regulations.

Upon comparison between the code in 2013 and its new replacement code in 2015 regarding the AC, it can be seen that the characteristics and roles of the AC are almost the same in both codes. Most importantly, the AC is still mandatory even though the new code is based on the "comply or explain" approach. Thus, this might be explained in two ways: either no criticisms were raised about ACs' characteristics and roles or the CMA believed that the AC was very important and unnegotiable.

However, there are two differences between them. The first is that Principle 2/4 of the 2013 CGC stated that "the chairman of the committee should be one from the non-executive Board members" (p. 56), implying that the non-executive members are allowed to be members of the AC. In the new code, on the other hand, the non-executive board members are not permitted to be members on the committee. The second difference is that in the old code (2013, p. 59) one of the roles of the AC is to "review the company's potential deals and transactions with related parties and provide the Board of Directors with the appropriate recommendations in this regard", whereas this role is removed in the new code.

2.6 Ownership structure in Kuwait

Kuwait has a unique blockholder ownership structure. There are four main categories of owners that dominate firms in Kuwait: institutional, government, family and royal family. According to Al-Saidi (2010), institutional investors are the main investors in the KSE, holding 44% of total equity. The key types of Kuwait's institutional investors

are insurance companies, banks, mutual funds and foreign investors (Alshammari, 2014).

The Kuwaiti government greatly increased its involvement in investing in listed firms after two main events (OECD, 2012). The first was the nationalisation of the oil business, which led the government to be the controller of the crude oil production. The second was the crash of the stock market in Kuwait in 1976-1977 and then again in 1982 (the Manakh Crisis). As far as the crash of the stock market is concerned, the Kuwaiti government wanted to absorb the crisis's social consequences and fund the market (Chalk et al., 1997).

The Kuwait government currently has interest in numerous listed firms. It possesses significant equity ownership in services (11.22%), manufacturing (11.5%), and investment industries (10.75%), and has minor ownership in food (8.57%) and insurance (7.06%) (Mutairi, 2011). Furthermore, it owns approximately 15% of the largest 20 listed firms (KAMCO, 2012).

Like most MENA and developing countries, wealthy families in Kuwait play an important role in initiating and directing private and public firms (OECD, 2005). Family ownership is dominant in Kuwait (Claessens et al, 2002; Fan and Wong, 2005), and family businesses attract the second biggest amount of investment after the government. Out of 177 listed firms on the KSE in 2008, 32.8% had boards comprising two directors from the same family, with the top 15 families' controlling 25% of the total number of board seats in Kuwait (Alshammari, 2014). Additionally, the dominant families own the major shares in the manufacturing (16.07%) and banking (27.10%)

sectors (Mutairi, 2011). The royal family possesses 45 board seats, which is 4.1% of the total board seats of the 177 listed companies (Halawi and Davidson, 2008), and they control about 4.6% of the entire market capitalisation. It is worth noting that family members in Kuwait often hold management and other key positions within firms (Sonfield et al. 2016; Abbasi and Hollman, 1993).

2.7 Conclusion

In summary, the political history of Kuwait shows that democracy is inherent since the country's foundation. The merchant class in both the pre- and post-oil eras has played an important role in the political situation of the country. This is because the economic power of this class has given them political influence over the rulers of Kuwait. Kuwait is considered a pioneer in terms of democratic participation in the region. In addition, it is a pioneer in trading securities and taking part in business activities. For instance, it is the first country to establish the sovereign wealth funds in the world, the first country in the GCC to establish the stock market, and one of the first countries in the world to adopt the IFRS. However, it was late in issuing regulations regarding the AC.

It is shown in the literature review chapter that the introduction of AC regulation in many countries was as a response to financial crises or scandals. The Kuwaiti economy has suffered from a number of crises; yet it has not issued any recommendation or regulation regarding the AC. Therefore, the first aim of this study is to find out the reasons behind the delay of issuance of a recommendation or regulation regarding the AC in Kuwait.

Kuwait is currently undergoing huge financial and economic reformations in order to enter the emerging market index and to be the financial centre in the region. One of these reformations is the establishment of the CMA which aims to unify the regulation and supervision of the securities and capital markets in the State of Kuwait. The CMA has issued the CGC for the first time in Kuwait. The first version of the code was based on mandatory regulations, but then this was later replaced by a new one that is based on the principle of 'comply or explain.'

The chairman of the CMA called these regulations as the largest legislative and regulatory work in the State of Kuwait history (CMA, 2015). More importantly, to the best of my knowledge, this is the first time in any country that the CGC changes from a mandatory basis to a 'comply or explain' basis as a result of firms' response. Hence, this can be considered a special feature that is worth investigating. Therefore, this study aims to explore how and why listed firms perceived, experienced and responded differently to the introduction of the CGC in 2013. Additionally, it aims to analyse the strategies that firms used in responding to the old and new CGC. Furthermore, another objective of this study is to provide insight into the perceptions of the interviewees regarding the extent to which they believe that listed firms will implement the AC effectively.

Chapter Three: Literature Review

3.1 Introduction

This chapter reviews the existing literature and studies relevant to the research aims and questions. It is divided into two sections.

The first section is related to CG research aims and questions, since the thesis investigates the implementation of CGC in the State of Kuwait. As was discussed earlier, the CGC in Kuwait was firstly based on mandatory principles and then changed to 'comply or explain' principles. The current study aims to understand how listed firms in Kuwait perceived, experienced and responded to the introduction of the mandatory code in 2013, why these firms perceived, experienced and responded differently to CGC, and what strategies these firms and the KCCI in Kuwait used to respond to the mandatory code in a way that led to it being eventually changed.

This section begins with reviewing the background and definitions of CG and then discusses the approaches to code implementation ("Comply or explain" and "mandatory"). This section is divided into two main subsections explaining the voluntary and mandatory codes. The first subsection reviews and discusses the mandatory approach during the implementation of the code and discusses the studies related to firms' responses to the introduction of mandatory codes. As for the second subsection, it is dedicated to discussing the voluntary approach and reviewing the pertinent studies with the aim of evaluating the effectiveness of this approach. After that, the CGCs models implemented in different parts of the world are discussed.

The second section of this chapter reviews the studies on ACs. As outlined in the introduction chapter, this thesis aims to investigate the reasons for the delay in issuing regulations/codes for ACs in Kuwait and find out why, in the pure voluntary environment, some firms (voluntarily) formed an AC while others did not. Alongside this aim, the thesis also attempts to explore the perceptions of the interviewees regarding the extent to which they believe that listed firms will implement the AC effectively. Therefore, this section starts with the background and development of the AC regulations worldwide. Then, the roles, responsibilities and importance of ACs are reviewed. This is followed by a review of the studies related to the factors and incentives leading firms to form voluntary ACs. Then, studies on the effectiveness of ACs are discussed and the major factors impacting the effectiveness of ACs are highlighted. Before the conclusion, the gap in the existing literature is explained.

3.2 Corporate governance: Background and definition

Although CG is not a new term in the literature, there is no clear and universal definition of it (Aguilera and Jackson, 2010). In general, CG can be defined from narrow or broader perspective. From the narrow perspective, firms are only accountable to shareholders and, thus, the main aim of the firms is to act to the best interests of their shareholders. From broader perspective, the firms should be accountable toward not only shareholders but also other stakeholders.

One of the simplest and most used definitions in CG literature is the one provided by the Cadbury Report (1992: 15): “the system by which companies are directed and controlled”. This definition is also used in all subsequent CGCs issued in the UK. The

OECD (2015) provides a wider definition about CG principles as "a set of relationships between a company's management, its board, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined" (OECD, 2015: 9). Therefore, the aim of CG is to align the interest of shareholders, management and other stakeholders as much as possible (Cadbury, 2000; Lattemann, 2014).

Many CGCs have been issued to improve CG practices. The CGC comprises the set of principles and standards of good CG adopted by firms. These principles and standards cover several issues that are important in the running of firms, such as broad composition and development, accountability and audit, remuneration, fairness and transparency, and relations with shareholders. The general aim of issuing a CGC is to improve the effectiveness of CG and to ensure firms are run in the best way possible.

According to Aguilera and Cuervo-Cazurra (2009), the first country that issued a CGC was the US in 1978, followed by Hong Kong in 1989, Ireland in 1991 and the UK in 1992. In developing countries, the first country that issued a code was South Africa in 1994 and no other developing countries issued any codes until India and Thailand did in 1998 (Cuomo et al., 2016). The first CGC issued by an international body was in 1996 by the International Corporate Governance Network (Aguilera and Cuervo-Cazurra, 2009). As for the Organization for Economic Co-operation and Development (OECD), which is one of the most important international bodies, it issued its first Principles of Corporate Governance in 1999.[4]

[4] OECD updated the code in 2004 and 2015.

It is worth mentioning that international bodies play a significant role in the creation of national codes (Aguilera and Cuervo-Cazurra, 2009; Cuomo et al., 2016; Mallin, 2013; Reid, 2003). Cuomo et al. (2016) find that the development of countries' CGCs often increased after the issuance of transnational codes, the occurrence of corporate frauds and scandals (e.g., Enron, WorldCom, Tyco in the US) and the financial crisis. Further, they also notice that the main recommendations suggested by codes issued by international bodies have been incorporated in both developed and developing countries' codes (e.g., in China, Czech Republic, Egypt, Greece, and Hungary). Cuomo et al. (2016) also state that these international bodies (like the World Bank, the International Monetary Fund and the OECD) have evaluated the implementation of these codes globally. In developing countries, international financial agencies (e.g. the World Bank, the International Monetary Fund) have encouraged and promoted the implementation of CG practices as a precondition for obtaining loans (Siddiqui, 2010, Uddin and Hopper, 2003).

3.2.1 Approaches to implementing CG codes

There are two models for the implementation of CGCs: the voluntary and the mandatory. The very clear examples of the two models or approaches are the UK's approach "comply or explain" (e.g., the Combined Code of 2016) and the US' approach (the Sarbanes-Oxley Act of 2002). These approaches and their criticisms will be discussed in the following sections starting with the mandatory approach, its criticisms and firms' response when it was introduced.

3.2.1.1 The mandatory approach

In response to a number of high-profile scandals starting in 2001, the US Congress passed the Sarbanes–Oxley Act (SOX hereafter) in July 2002. The objectives of the SOX are the restoration of investors' confidence in financial markets and improvement of CG. It also aims to prevent deceptive management and irregular accounting by imposing more penalties on managerial misbehaviour, obliging more oversight and reducing conflicts of interest (Zhang, 2007). The US' approach uses stringent CG legislation which some authors have described as hard laws. Under this approach, the firms have no option but to comply with the requirements (MacNeil and Li, 2006). In other words, the issuers of this approach believe in 'one-size-fits-all'[5] CG and assume that all firms must implement the full law. According to many researchers (e.g., MacNeil and Li, 2006; Taylor, 2006), the main reason for and the philosophy behind this Act lies in the belief that CG practices should be compulsory in order to prevent further firm failure. However, Aguilera and Cuervo-Cazurra (2009) state that the mandatory approach is rarely found in codes of good governance and is usually more related to laws.

The mandatory code has received numerous criticisms. One of the most serious criticisms is the inflexibility of this approach as it does not take into consideration the differences between firms, considering all firms to be homogeneous. Arcot and Bruno (2006) emphasise that disregarding the heterogeneity of firms by de facto imposing one-size-fits-all approaches raises efficiency issues. For example, the same practices in one company cannot be implemented cost-effectively in another company (Keay,

[5] Some researchers use the term 'one-size-fits-all' to describe the mandatory code since this approach deals with all firms in the same way.

2014). In other words, the one-size-fits-all approaches treat all companies in the same way and thus some firms might not need all the code requirements thus incurring further costs without any actual benefits. Accordingly, this approach has been criticised for the burden it adds to small and medium firms since their CG needs are different from those of large firms (Nedelchev, 2013).

3.2.1.1.1 Firms' responses to the introduction of the mandatory code

Since one of the research questions is investigating how listed firms perceived, experienced, and responded to the introduction of a mandatory code and why they behaved in the way they did, this section presents a discussion of firms' responses to the mandatory code. The discussion in this section focusses mostly on the SOX and relevant USA studies since very few countries around the world adopted the mandatory code.

Although many researchers believe that the SOX is very crucial, others believe that its implementation resulted in the cost of being listed on US markets outweighing the benefits. This, in turn, might lead some firms to decide to go private or delisted and even deter other firms from being cross-listed or going public. Many studies have found that the number of firms that went private (Engel et al., 2007) or delisted (Leuz et al., 2008) increased dramatically after the passage of the SOX; other studies have also reported an increase in the number of foreign firms that chose to be delisted (Hostak et al., 2013). Likewise, Piotroski and Srinivasan (2008) have found that, after the passage of the SOX, the number of foreign firms that entered US exchanges decreased and that, since then, small firms have preferred to be listed on UK exchanges. Furthermore,

Small et al. (2007) have concluded that small companies experienced greater negative abnormal returns related to the passage of the SOX than did large companies.

Critics of the SOX attribute this to the fact that, for small companies, the costs of the implementation of the SOX outweigh the benefits (Engel et al., 2007; Leuz et al., 2008; Small et al., 2007; Piotroski and Srinivasan, 2008; Levy, 2010). Many researchers (e.g., Coates and Srinivasan, 2014; Levy 2010; Piotroski and Srinivasan, 2008; Small et al., 2007; Engel et al., 2007) believe that the SOX has placed an unreasonable burden on small firms due to its compliance high costs. Reviewing many studies dealing with how the SOX impacted U.S firms, Kamar et al. (2008) concluded that the costs of the SOX were greater than its benefits for small firms. Similarly, Williams (2005) conducted a survey with financial executives and showed that 54% of them mentioned that they paid more than they expected.

Marosi and Massoud (2008) found that small foreign companies with low trading volume were more likely to decide to withdraw from US markets. They described this finding to be congruent with the fact that, for such companies, the costs of continued US listing are greater than the benefits. Further, foreign companies with greater insider control were also more likely to prefer being delisted from the market. This means that when a country adopts this approach, it becomes a less attractive place of business for foreign firms. In sum, the aforementioned studies in some way share the conclusion that smaller firms have been affected more than large firms by the introduction of the SOX in the USA.

In France, the French Financial Security Law (FSL) was introduced in 2013. The FSL is similar to the SOX and it aims to strengthen the legal provisions associated with CG. Martinez and Serve (2011) found that the size and performance of companies in France appeared to affect the delisting decision more greatly due to the inability of smaller and/or poorly performing companies to amortise the increased listing costs.

3.2.1.2 The voluntary approach

The other approach to implementing CGCs is the UK's approach. Unlike the USA, the UK reacted to CG scandals and failures (e.g., the Maxwell Communications, Polly Peck and BCCI) by issuing a pioneering approach known as the "comply or explain" approach (Aguilera and Cuervo-Cazurra, 2004 and 2009; MacNeil and Li, 2006). This approach was introduced for the first time in 1992 by the Cadbury Report. Under this approach, listed firms have the option either to comply with the code's recommendations or provide an explanation of why they do not comply. Therefore, many researchers called this type of code a "soft law", voluntary code or non-binding set of principles (e.g., Aguilera and Cuervo-Cazurra, 2009; Keay, 2014).

The "comply or explain" approach has two main underlying assumptions. The first and main one is in providing flexibility for firms to choose the practice that meets their needs (Arcot and Bruno, 2007; Keay, 2014; MacNeil and Li, 2006). Therefore, this approach is based on self-regulation. In simple words, the assumption behind this code is that one size does not fit all since firms are not homogeneous and should not be subject to rigid rules (Arcot and Bruno, 2007; Keay, 2014). The flexibility of this approach permits firms to implement the practices that suit their needs. For instance, practices in one company might not be implemented cost-effectively or needed in a

different company. Sir Adrian Cadbury stated that “the comply or explain” style is more desirable than the mandatory code since it does not obligate firms to adopt a one-size-fits-all style and, therefore, reduces the risk of complying with the letter but not the spirit of the governance code.

The second assumption is that the capital markets and shareholders will monitor and evaluate compliance with a code (MacNeil and Li, 2006). Therefore, it depends on shareholders and market participants assessing this part of the firm's statement. Furthermore, the development of the market and the institutional environment play a very crucial role in assessing the degree of monitoring code compliance. Thus, in the context where the “comply or explain” approach is implemented, evaluating what firms do or state with respect to the code requirements is not the responsibility of the regulatory bodies but of the markets generally and the firm's shareholders.

Since Kuwait switched to the “comply or explain” approach, it is helpful to evaluate and discuss the effectiveness of implementing this approach. In this regard, several studies have examined the level of compliance and the quality of explanation provided by firms where they did not comply with some element of the code. The following subsection discusses these matters.

3.2.1.2.1 *Effectiveness of the ‘comply or explain’ approach*

Many studies examined the level of compliance with codes in developed and developing countries. The degree of compliance with codes differs considerably across countries (Cuomo et al., 2016). Examples of studies in the context of developed countries were conducted in Germany (e.g., Drobetz et al., 2004; Werder et al., 2005),

Denmark (Rose, 2016), Portugal (Alves and Mendes, 2004), the UK (Arcot and Bruno, 2006; Arcot et al., 2010; Conyon and Mallin, 1997; MacNeil and Li, 2006; Mallin and Ow-Yong, 2012; Shrives and Brennan, 2015), the Netherlands (Akkerman et al., 2007; Bebenroth 2005; Hooghiemstra and van Ees, 2011), the Republic of Ireland (Brennan and McCafferty, 1997), Spain (Del Brio et al., 2006; Fernández-Rodríguez et al., 2004), Sweden (Achtenhagen et al., 2018) and Italy (Lepore et al., 2018). All the previous studies revealed a high level of compliance.

For example, one of the first studies conducted in this regard was a study by Conyon and Mallin (1997) which examined the extent to which the UK's listed firms implemented the Cadbury recommendations. The researchers found that there was a very high degree of compliance with the code and full compliance with both remuneration and ACs. In the same vein, Arcot et al. (2010) and MacNeil and Li (2006) noticed that the degree of compliance with the UK's Combined Code had increased over time. Apart from the composition of ACs, Arcot et al. (2010) found that the level of compliance increased for all principles. Similarly, in terms of increasing compliance over time, O'Shea (2005) reported that only 67% of the top 100 UK listed firms had ACs in 1992, prior to the Cadbury report. The researcher also found that every single FTSE 100 firm (the 100 most capitalised firms in the LSE) had an AC along with nearly 98% of mid 250 UK firms by June 1995.

Unlike the case in developed countries, in general the level of compliance is low in developing countries (Aguilera and Cuervo-Cazurra, 2009; Cuomo et al., 2016). This is confirmed by the findings in Cyprus (Krambia-Kapardis and Psaros, 2006), Ghana (Tsamenyi et al., 2007), Greece (Nerantzidis, 2015; Thanasas et al., 2018), Uganda

(Wanyama et al., 2009), Botswana (Magang, 2016) and Nigeria (Olayiwola, 2010). Most surprisingly, Nerantzidis (2015) and Thanasas et al. (2018) found that in Greece, apart from being low, the overall compliance level was gradually decreasing.

Nevertheless, some other studies revealed a high level of compliance like the one conducted by Campbell et al. (2009) in the context of Poland. Tariq and Abbas (2013) demonstrated that the average level of compliance in Pakistan had improved over time. In Bangladesh, the World Bank (2009) witnessed a considerable enhancement in CG practices reporting the compliance level of 82% based on the data provided by the annual reports. Another study was conducted in Bangladesh by Ferdous (2018) and found that the overall level of compliance was 67%, indicating a moderate level of compliance. However, Sobhan (2016) carried out a study in Bangladesh using the institutional logics perspective and compared the actual compliance with the code and the reported compliance in annual reports. The findings revealed that the reported compliance with the code in annual reports was considerably higher than the actual compliance. Sobhan (2016) concluded that firms might use a decoupling strategy; "window-dressing" to conflicting institutional demands. He further concluded that encountering a conflict between regulative legitimacy and cultural-cognitive legitimacy, companies maintained regulative legitimacy by reporting compliance in annual reports and sustained cultural-cognitive legitimacy by not employing the code in reality.

Hence, some researchers argue that concentrating more on compliance levels can lead to a box-ticking attitude to monitoring because the aim behind the "comply or explain" approach is not to force firms to comply when they have sufficient explanation for non-

compliance (Keay, 2014). In other words, the focus should not be on compliance solely as this might cause a deviation from the spirit of the "comply or explain" approach.

Most importantly, researchers argue that, being only concerned with whether firms comply or not, the market and shareholders appear not to pay attention to the explanation stated by firms in cases of non-compliance. Richard Hopper, Chairman of Informa PLC, supports this argument stating that "Explanations of non-compliance by companies are at best ignored by some shareholders' organizations or at worst the company is criticized for not achieving a full set of ticked boxes" (cited in Arcot et al., 2010). Arcot et al. (2010) further believe that shareholders do not pay attention to CG until firms have a bad performance. A case in point is the company W.M. Morrison, an example of how shareholders' interference regarding CG is often not pre-emptive, but typically happens after poor performance.

Many studies have examined and concentrated on the evaluation of the quality of explanations given by firms when they do not comply with any of the principles of codes. However, most of these researchers have been conducted in developed countries (e.g. the UK, Germany and the Netherlands) (Cuomo et al., 2016). For instance, a number of studies were conducted in the UK to examine the quality of explanations (e.g., Arcot and Bruno, 2006; Arcot et al., 2010; Shrives and Brennan, 2015) by studying non-financial UK firms. Although the findings of these studies reveal that the level of compliance has improved over time, they also reveal that the quality of explanations for non-compliance remains very low and achieves only marginal improvements.

Arcot and Bruno (2006) and Arcot et al. (2010) found the explanations for non-compliance provided by many firms were uninformative and standard or did not change their explanation over the time. They argue that the quality of explanations at the firm level did not enhance over time. Most surprisingly, the researchers revealed that no explanations were given in an average of 17% of the non-compliance cases they studied. Furthermore, they found that no explanation was provided in nearly one in five of the cases of non-compliance and in the cases of most firms that stopped complying with some code provisions. Therefore, they presume that such firms might comply with the letter but not the spirit of the code, stressing that giving reasons for non-compliance is supposed to explain why abandoning best practice in CG could be the best decision for a given firm.

Similar results have been obtained in both developed and developing countries. For instance, Hooghiemstra and van Ees (2011) and Akkermans et al. (2007) in the Netherlands and Thanasas et al. (2018) in Greece found that the content and nature of the explanations given by firms for non-compliance were similar across firms. Nerantzidis (2015) discovered that most firms in Greece gave no explanation for non-compliance while Lepore et al. (2018) reported that firms in Italy did not give sufficient explanations when they did not comply. On the contrary, studies in Denmark (Rose, 2016) and in Sweden (Achtenhagen et al., 2018) found that firms provided informative and adequate reasons for not complying with the codes.

Many researchers (e.g., Arcot and Bruno, 2006; Lepore et al., 2018; Shrives and Brennan, 2015) believe that the findings of studies on non-compliance explanations highlight issues in the "comply and complain" approach in both developing and

developed countries. In particular, a number of researchers questioned the efficiency of this approach in developing countries since these countries are characterized by poor enforcement of law, weak investor rights, and undeveloped capital markets (Osemeke and Adegbite, 2016; Wanyama et al., 2009).

3.2.2 CG codes diffusion worldwide

Many countries have now issued CGCs. Cuomo et al. (2016) found that the issuance of CGCs accelerated after the occurrence of financial crises (e.g., the recent financial crisis in 2008 and the Asian and Russian stock market crashes) and corporate scandals and frauds (e.g., Enron, WorldCom and Parmalat). Furthermore, researchers showed that the issuance of international codes (e.g., OECD Principles) usually accelerated the creation of national CGCs. Therefore, international agencies (e.g., OECD, World Bank, ICGN, Pan-European and Commonwealth) play a significant role in CGCs' reforms and diffusion not only in developing but also in developed countries (Aguilera and Cuervo-Cazurra, 2004 and 2009; Cuomo et al., 2016; Siddiqui, 2010).

The OECD and the World Bank are two of the most influential international bodies. As mentioned earlier, the OECD issued the first Principles of CG in 1999. These principles were used by the World Bank to evaluate and assess CGCs in developing countries (Aguilera and Cuervo-Cazurra, 2009). The OECD principles advocate the "comply or explain" approach (Arcot and Bruno, 2006). Therefore, following these international bodies, many developed and developing countries around the world have adopted this approach.

According to Keay (2014), the majority of OECD countries and a great number of non-OECD countries have adopted CGCs based on the "comply or explain" approach.[6] The CG reforms in a number of both developed and developing countries have been achieved through implementing economic reforms led by an international donor (e.g., World Bank) (Aguilera and Cuervo-Cazurra, 2009; Okike, 2007; Tsamenyi and Uddin, 2008; Tsamenyi, et al., 2007; Uddin and Choudhury, 2008). Therefore, CGCs in most developing countries mainly follow international bodies, especially the OECD and World Bank (e.g., Aguilera and Cuervo-Cazurra, 2004 and 2009; Ahmed and Uddin, 2018; Kealy, 2014; Lattemann, 2014; Wanyama et al., 2009).

Many scholars (e.g., Ahmed, 2019; Albu and Girbina, 2015; Krambia-Kapardis and Psaros, 2006; Nerantzidis, 2015; Osemeke and Adegbite, 2016; Siddiqui, 2010; Wanyama et al, 2009) investigated the effectiveness of the "comply or explain" approach in developing countries. The findings of these studies indicate that the mere introduction of the CGC does not mean that governance practices will be enhanced. These scholars attribute the unsuitability of the "comply or explain" approach in developing countries to the fact that these countries are characterised by high ownership concentration, weak and inefficient capital market, low enforcement mechanisms, weak investor rights and less demanding users of information.

Some researchers also believe that this approach is not effective in developed countries (MacNeil and Li, 2006), and suggest a number of solutions to improve the effectiveness of this approach. For instance, one recommendation is to solve the issues of this

[6] Australia, Austria, New Zealand, Belgium, Canada, Hong Kong, Germany, China, South Africa, Indonesia, Portugal, Italy, Malaysia, Korea, Spain, Poland, Ireland, Singapore, Mexico, United Arab Emirates, Jordan, Oman, Sweden, Qatar, Saudi Arabia, Bahrain and Egypt.
.

approach by strengthening the mechanisms of institutional enforcement as well as using directives and mandatory rules (Ahmed 2019; Keay, 2014; Krambia-Kapardis and Psaros, 2006; Nerantzidis, 2015; Osemeke and Adegbite, 2016; Wanyama et al., 2009).

Many developing countries have adopted the "comply or explain" approach in general with some mandatory provisions in the code (e.g., Malaysia, United Arab Emirates, Egypt, Saudi Arabia, Kuwait, Bahrain and Turkey). In other words, these countries have used a hybrid code which is generally based on the principle of "comply or explain" but which, simultaneously, has some mandatory elements. On the other hand, some other developing countries have changed their CGC approach completely. For instance, the Bangladesh Securities and Exchange Commission changed the CGC from the "comply or explain" approach issued in 2006 to the mandatory code in 2012 to improve the CG practices (Ahmed and Uddin, 2018). Thus, the main motive that drove this change was the desire to improve CG practices in Bangladesh especially after the failure of the "comply or explain" approach. In Kuwait, the case was the other way around; the shift was from the mandatory to the 'comply or explain' code and the change stemmed from firms and interested parties' reactions even before the actual implementation of the code. Therefore, the cases of a developing country implementing a mandatory code, "the US style", are very rare in the first place. Therefore, it is very interesting and important to understand why this change happened and why the mandatory code had no success in implementation.

In summary, prior studies on the CGC's implementation and reform have focused on the influences and role of international bodies (e.g. the Word Bank, OECD, and Pan-European and Commonwealth). These studies demonstrate how these international bodies promote, develop and shape CGCs in many countries. Yet, the role of different

parties within countries and their role in shaping the content and the process of the development of codes has received little attention. In this regard, Cuomo et al. (2016) argue that for a better understanding of the roles of different parties (like government authorities, institutional investors, directors' associations, large shareholders and other parties), a study is needed that focuses on the process of codes development and investigates the political process which leads to developing and shaping the content of the codes. In the same vein, many researchers have called for studying the political process of developing and implementing CGCs (Ahmad and Mahmood, 2015) and understanding how CG requirements adapt and evolve over time (Mahadeo and Soobaroyen, 2016) in developing countries.

3.3 Audit committees

The purpose of this section is to review the prior literature on ACs. Most of the literature comes from developed countries, particularly the US, and this is attributable to the US being the country where ACs became mandatory for the first time. The literature on ACs can be divided into two main time periods. The first period was from the 1970s to the middle of the 1990s. In this period, most of the studies were conducted with the primary goals of discovering the issues surrounding the existence of and incentives for the formation of ACs (e.g., Bradbury, 1990; Collier, 1993; Eichenseher and Shields, 1985; Kunitake, 1981; Marrian, 1988; Mautz and Neumann, 1970; Pincus et al., 1989) and showing the importance of ACs in CG by comparing the firms that had ACs with those that did not (e.g., Beasley, 1996; Becker et al., 1998; Bradbury, 1990; DeFond and Jiambalvo, 1991; McMullen, 1996; Wild, 1994). The second period started in the middle of the 1990s and continues until today. These studies have mostly been carried out with the aims of capturing the specific components of the effectiveness of ACs and

discovering the impact of the characteristics and composition of ACs on those specific components.

3.3.1 Development of audit committees

One of the research questions in this thesis is concerned with the reason behind the delay of issuing regulations/recommendations in the State of Kuwait. To understand this, it is helpful to review the reason behind the introduction of ACs regulations and recommendations as well as the development of ACs around the world.

The AC has been introduced in some countries for a long time. For instance, several researchers in the United States (US) (e.g., Birkett, 1986; Collier, 1996; Fichtner, 2010) noted that ACs were introduced after the fraud of McKesson & Robbins Inc. in the late 1930s when the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE) recommended that external auditors should be chosen by a particular committee comprised of outsider board members. Thus, the initial emergence of ACs started from signs of doubt about auditors' independence.

ACs were at first voluntary and were adopted by only a small number of firms. Mautz and Neumann (1970) conducted a study in the US about firms' ACs and found that only 32% of firms had ACs. They reported that firms listed on the NYSE primarily established ACs through the 'word of mouth' concept. During the 1970s, the interest in ACs was restored as a result of corporate failures (e.g., Gulf Oil Corporation and Penn Central Railroad). In January 1977, the NYSE mandated all listed firms to have an AC (Birkett, 1986). In 1977, Mautz and Neumann conducted another study just after this requirement and found that 87% of firms had ACs. In the following 20 years, a number

of commissions in the US attempted to reinforce the effectiveness of ACs but without recourse to legislation.

In the UK, Tricker (1978) found a copy of the 1872 report from the Great Railway's AC. This report showed that the AC was responsible for reviewing the auditor's works and recommending the appointment of an external auditor. A survey study conducted by Marrian (1988) in the UK found that only 17% of 451 firms had ACs. Most importantly, the researcher discovered that ACs were mostly created based on one of the board members' experience with an AC in another firm where he/she was a representative of the board. The failures of Maxwell and BCCI in the late 1980s and early 1990s were a sign of bad CG (The Cadbury Report, 1992). In May 1991, the Financial Reporting Council, the accountancy profession and the London Stock Exchange established the Cadbury Committee on the Financial Aspects of CG. One of the recommendations raised by the Cadbury Committee was to establish an AC for public firms. In the years following the Cadbury Committee's recommendations (1992), almost all UK-listed firms had ACs. Collier (1996) argued that there were almost no ACs before 1979, and they started to be established in the early 1990s after the introduction of the Cadbury Committee codes. Thus, in the late 1990s, both the US and the UK had in place a system of regulation whereby listed companies were expected to have independent ACs.

Nevertheless, the failure of Enron in the US in 2001, in spite of the existence of a substantial level of AC self-regulation, forced regulators and governments to rethink, not only in the US and UK, but also in the rest of the developed world (Fichtner, 2010). Consequently, a considerable amount of supplementary AC regulation was introduced

in the US and other parts of the world. In the US, the obvious reaction was the introduction of the Sarbanes-Oxley (SOX) Act (the US House of Representatives Committee on Financial Services, 2002), which aimed to protect investors and restore investors' confidence in the financial markets. The SOX Act provides a great deal of reinforcement regarding ACs to improve their effectiveness and it makes it mandatory for all public firms to be comprised of independent directors with a minimum of one member who must qualify as a financial expert either through education or experience.

In the UK, the reaction to the failure of Enron was the founding of the Smith Review (Smith Committee, 2003) that aimed to offer a detailed set of recommendations for reinforcing the roles and effectiveness of ACs (Ghafran and O'Sullivan, 2013). These recommendations were then included in the Combined Code issued in 2003. Most importantly, unlike the case in the US, it was based on the principle of complying or explaining. The Smith Report (Smith Committee, 2003) recommendations state that all members in ACs should be independent, at least one member should have relevant and recent financial experience, and there should be a minimum of three members (two in the case of smaller companies). Subsequent revisions of the Combined Code in 2006, 2008 and 2010 as well as the latest UK CG Code (Financial Reporting Council, 2018) have essentially carried forward the existing recommendations for ACs as recommended by the Smith Report (Smith Committee, 2003).

In developing countries, ACs were introduced for similar reasons to those for which they were introduced in the US and UK. Teoh and Lim (1996) stated that the reason for the introduction of ACs in Malaysia was to respond to corporate scandals. In Singapore,

ACs were introduced after the failure of Pan Electric Limited and have been required on a mandatory basis for all listed companies since 1989. The Asian financial crisis of the late 1990s also has had a large influence on the introduction of ACs in some Asian countries, including Indonesia, Thailand and Korea. Rochmah and Ghazali (2012) argue that ACs in Indonesia were regulated only after the 1997 Asian financial crisis. This is because at that time both domestic and international investors lost their confidence in the way that the firms in Asian countries were managed. For that reason, these countries needed to improve their CG to restore the confidence of both their domestic and foreign investors and to recover from the financial crisis (Zhuang et al., 2000). The Asian financial crisis is regarded as a vital factor leading these countries to accept that ACs must be formed by all listed firms as part of their CG reforms (Tengamnuay, 2005). The formation of an AC in many developing countries is mandatory, even though most of them use the "comply or explain" approach. Examples in this respect are UAE, Kingdom of Saudi Arabia, Malaysia, Bahrain and Jordan.

In sum, this section revealed that the AC has existed for a very long time. Further, the introduction of ACs regulations and recommendation around the world was mostly as a response to financial crises or corporate fraud and scandals. In fact, introducing or improving the regulations regarding ACs is among the first things that regulation bodies around the world do to restore stakeholders' confidence. Although the prior studies discussed above provide the reasons behind the introduction of ACs regulations and recommendations, there is no mention of the reasons behind the delay of issuing such regulations. Kuwait, like other countries around the world, has suffered from a number of financial crises (e.g. AL Manakh crisis in 1980s, the financial crisis in 2008). However, there were no regulations or recommendations regarding the formation of

ACs before the release of the CGC in 2013. Thus, this study aims to find these reasons behind this delay.

3.3.2 Roles of the audit committee

Since this study is mostly concerned with the introduction of ACs, it is very helpful to discuss and understand the role of ACs. Many studies (e.g., Beasley et al., 2009; Chen et al., 2008; Genron and Bedard, 2006; Sori et al., 2007; Turley and Zaman, 2007) have emphasised the important role of the AC in overall CG reinforcement. Jennings (2002) argues that the aim of ACs is to give shareholders and investors a guarantee that the behaviours and activities of the firm's management and employees are overseen by someone from outside the firm. That is, the existence of an AC in a firm plays a key role in safeguarding and enhancing the interests of shareholders. To do so, the AC is responsible for ensuring the integrity and quality of financial reporting; maintaining the independence of external auditors; and for monitoring, evaluating and enhancing the effectiveness of firms' internal controls. These roles will be discussed in detail in the following sections.

3.3.2.1 ACs' role in financial reporting

A firm's executive management has incentive to manipulate earnings in order to meet or beat stockholders' expectations and to achieve predetermined benchmarks that maximise their pay (Degeorge et al., 1999; Burgstahler and Dichev 1997; Tanyi and Smith, 2014). Thus, having someone to review the reliability and integrity of financial reporting is critical. The major role of the AC is to protect the integrity and enhance reliability and quality of financial reporting information provided by the executive management. Caplan (1999) stresses the importance of ACs in firms' discovery of

irregularities, fraudulent actions and errors. Furthermore, Carcello (2009) argues that ACs are often considered the most significant CG tools in guaranteeing reliable financial reporting. US Securities and Exchange Commission Chairman, Harold Williams, contends that "the audit committee can enhance, if not ensure, the credibility of corporate financial reporting" (Williams, 1977:71). This can be accomplished by reviewing financial information before its disclosure and publication as well as overseeing the firm's accounting and financial reporting processes.

The AC should also review financial reporting and evaluate whether its preparation is complete and in line with the knowledge and information available to AC members. In this regard, the AC is also responsible for deciding that accepted accounting principles have been used to compile financial statements. Additionally, AC members are responsible for taking into account the risks inherent in changing and implementing new financial statement rules, especially in the contexts of accounting, regular employee turnover, information technology introduction, new production, etc. The AC should also devote special attention to complicated and uncommon transactions in the accounting period. More attention is normally devoted to areas in which different judgments and assumptions could have substantial effects on the information of financial statements (e.g., long-term provisions, financial instruments, acquisitions, value adjustments, contractual commitments, contingent liabilities and litigations). Thus, if the AC achieves its assigned roles regarding financial reporting, it is expected to reduce management manipulation and the likelihood of accounting restatements and, thus, to improve the integrity and reliability of financial reporting and to restore investors' confidence. Qasim (2018) surveyed academics, ACs members, external auditors, and governmental regulators in the UAE and found that the most significant

role of the ACs is perceived to be overseeing the reviewing and integrity of the firm's financial reports.

3.3.2.2 ACs' role in internal control and auditing

One of the main purposes of the AC is to monitor the quality and improve the effectiveness of firms' internal control. The monitoring function of the AC is fundamentally achieved through internal control and auditing, which are the operational portions of overseeing the financial performance of a firm. Gramling and Hermanson (2006), Turley and Zaman (2004) and Barua et al. (2010) state that ACs often depend on internal control and audit, which are considered as a vital resource for ACs to accomplish their duties and achieve their CG roles effectively. Cohen et al. (2007) presumes that strong internal auditing is a crucial resource of the AC in assisting it to achieve its oversight responsibility. An effective internal control can support the AC in many areas, including the independent evaluation of accounting practices and processes, fraud analysis, risk analysis and assurance control (Hermanson and Rittenberg, 2003). Therefore, a close link between the internal audit and the AC enhances the governance abilities of both of them (Cohen et al., 2004).

Moreover, James (2003) maintains that creditors perceive internal control functions linked directly to ACs to be more capable of detecting and reporting fraud than internal control functions linked directly to firm management. Furthermore, Goodwin (2003) claims that the involvement of ACs in the replacement and appointment of chief internal controls decreases management influence and, thus, enhances the empowerment of the internal control function. Therefore, the AC should monitor firms'

internal control functions in order to guarantee effective assistance and monitoring (Carcello et al., 2005; Ahmad et al., 2009).

One of the most important roles of AC is to ensure and improve the independence of internal auditors in order to make sure that they are able to achieve their roles. For this reason, many regulators (SOX and Smith Committee) require ACs to review and monitor the effectiveness of firms' internal control and audit function, to approve the appointment or termination of the chief of internal audit, the resources and access to information, to review the reports issued by the internal auditors, and to approve and review the internal audit plan. Kamel and Elkhatib (2013) surveyed senior accountants, external auditors, and academics in Egypt and found that the participants believed that the most significant roles of AC were reviewing accounting policies and evaluating internal control.

3.3.2.3 ACs' role in external auditing

The main purpose of the AC is to monitor the quality of financial reporting and to protect the independence of external auditors. The copy of the report from the Great Railway's AC in 1872 found by Tricker (1978) shows that the AC was responsible for reviewing the auditor's works and recommending the appointment of an external auditor. Malihi et al. (2012) found that the ACs' existence increases auditors' independence from management. In order to achieve these objectives, many regulators define a number of roles for the AC in relation to external auditors.

Although the AC requirements and roles vary by country, there is general consensus among the regulators and academics that the role of AC is to be responsible for the

work of external auditors. The reason behind that is to ensure and improve the independence of external auditors. Many regulators around the world introduce regulations or recommendations that determine the role of AC with the external auditors, such as the appointment and termination of external auditors, remuneration, audit quality, and auditor independence (e.g. SOX, Smith Committee, Australia, China, New Zealand, Singapore and Spain). The non-audit services are another crucial role that has received the attention of many regulators and academics, snice these services may impair external auditors' independence (e.g. SOX, Smith Committee). Arthur Levitt, ex chair of the SEC, stated that these services reduce the distance between the management and auditor. Therefore, regulators forbid most non-audit services from being given by auditors to audit clients and require the rest to be pre-approved by ACs in order to maintain the independence of external auditors. AC roles also include resolving disagreements between auditors and management. The AC serves as a bridge in the communication between external and internal auditors and DOBs. This all assists in safeguarding the quality of the external auditor work and reinforcing confidence in the company's financial reporting (Bédard and Compernolle, 2014; Ghafran and Sullivan, 2013).

3.3.3 Motivation for the formation of ACs

One of the research questions in this thesis is concerned with why some firms have formed voluntary AC while others have not. This section will discuss and review the prior studies in this regard. Many researchers have attempted to identify the factors and incentives that have led firms to form ACs (e.g., Bradbury, 1990; Eichenseher and Shields, 1985; Kunitake, 1981; and Pincus et al., 1989). The factors that have been highlighted are: board composition (Pincus et al., 1989), board size (Bradbury, 1990),

firm size (Eichenseher and Shields, 1985; Jemison and Oakley, 1983; Pincus et al., 1989), management stock ownership (Eichenseher and Shields, 1985; Pincus et al., 1989), agency costs (Collier, 1993; Pincus et al., 1989) and agency costs of debt (Collier, 1993; Pincus et al., 1989). However, the results of these studies are contradictory. For instance, concerning agency costs, Pincus et al. (1989) and Collier (1993) found a clear relationship between firms with high agency costs and the voluntary creation of ACs in the UK, while Bradbury (1990) did not find this association in New Zealand. This is because the firms that had high agency costs formed their ACs to reduce those agency costs. Further, Pincus et al. (1989) found that those firms that voluntarily formed ACs had lower management possession of the firm's stock than firms that did not have ACs. This might be because the greater the managers' ownership stock in the firm, the more alignment there is between managers' and stockholders' incentives. Consequently, a decrease in managers' holdings of stocks increases the stockholders' demands for monitoring. This is consistent with the assumption that the motivations to form ACs voluntarily rise with the agency costs of equity.

Directors' incentives are another factor that has been found to lead to the formation of ACs. The number of non-executive members has been reported to be a crucial factor behind the formation of ACs, since the basic role of a non-executive member is to challenge and monitor the work of executive directors and management (Bradbury, 1990; Collier, 1993; Pincus et al., 1989). Pincus et al. (1989) explained the association between nonexecutive directors and the formation of ACs as deriving from the liability exposure of outsider directors. Bradbury (1990) found a relationship between the size of the board of directors and the establishment of ACs. Two reasons might explain this

relationship, the first of which is that an increase in a board's size might make ACs an efficient tool for evaluating audited financial statements and accounting controls. The second reason is that the larger boards are more likely to include nonexecutive directors.

Another incentive behind forming ACs is firm size. Since the formation of ACs is not without costs, a smaller firm might not be able to afford the costs of formation. Pincus et al. (1989), Jemison and Oakley (1983), Marrian (1987) and Eichenseher and Shields (1985) found some associations between firm size and AC formation, whereas Collier (1993) found no such relationship. Additionally, Eichenseher and Shields (1985), Pincus et al. (1987) and Collier (1993) reported a relationship between the formation of ACs and the Big Eight auditors, but Bradbury (1990) did not. Eichenseher and Shields (1985) noted that the non-Big Eight auditors are unlikely to motivate firms to establish ACs since they are likely to believe that an AC would prefer the choice of one of the Big Eight firms[7].

It can be seen from the aforementioned studies that most of them were conducted in developed countries, while developing countries were neglected. Furthermore, all the studies above used the agency theory and quantitative data. This thesis seeks to contribute to literature by investigating and finding out the forces that explain why some firms voluntarily formed an AC while others did not in Kuwait as a developing country. Also, this thesis uses qualitative data and employs ILP, which aims to provide an alternative method and lens to analysis the data.

[7]The Big 4 accounting firms used to be referred to as the Big 8 until 1989. The Big 8 were Arthur Andersen, Arthur Young, Deloitte Haskins & Sells, Ernst & Whinney, Peat Marwick Mitchell, Price Waterhouse, Touche Ross and Coopers & Lybrand.

3.3.4 The importance of audit committees

After reviewing the development of ACs and their role, it can be concluded that the main motivation behind their existence and mandate is to reduce the possibility of unexpected firm failures and/or corporate malpractice. Thus, ACs were introduced and developed to be used for improving CG and restoring investor confidence in the market. Many researchers (e.g., Beasley et al., 2009; Chen et al., 2008; Rezaee, 2009; Zain et al., 2006; Al-Twaijry et al., 2002, Alzeban, 2015; Gendron and Bedard, 2006; Sori et al., 2007; Turley and Zaman, 2007) have highlighted the important roles of ACs in overall CG reinforcement. ACs are intended to improve the independence of internal and external auditors and to increase the credibility of financial reporting. If these objectives are were achieved, investors' confidence in the market would be restored as most corporate failures and scandals have stemmed from the lack of auditor independence, weak internal control and/or fraudulent of financial statements. Guthrie and Turnbull (1995) argue that two main aspects emerge regarding the advantages of ACs. First, they assist the independence directors as well as that of the external and internal auditors. Second, they increase the quality of financial reporting and auditing in the firm. Furthermore, Jennings (2002) contends that the aim of ACs is to give shareholders and lenders a guarantee that someone from outside the firm is overseeing the practices, behaviours and activities of the firm's management and employees. Klein (1998) holds that an AC can lessen the agency issue in the company and can also lessen the information asymmetry between outsiders and insiders. Mautz and Neary (1979) claim that an AC is undeniably a valuable mechanism that can offer supplementary protection in CG. DeZoort (1997) believes that an AC is an important tool to achieve the monitoring duties of boards relating to a firm's internal control, external audit

process and financial reporting. Bradbury (1990) further argues that ACs reduce information asymmetry between executive and non-executive board members.

To assess the importance and benefits of having an AC, a number of studies have examined differences between firms with and without ACs in various ways, mainly in terms of fraud (Beasley, 1996; McMullen, 1996), earning management (Becker et al., 1998; DeFond and Jiambalvo, 1991), the quality of managerial accountability to shareholders (Bradbury, 1990; Rainsbury et al., 2008) and earning-returns (Chen et al., 2008; Wild, 1994). DeFond and Jiambalvo (1991) aver that the overstatement of earnings in financial statements is less likely among firms that have an AC. Wild (1994) examined the association between firms' earning reports and stock returns pre and post the formation of an AC and found earnings to be considerably more informative post formation. McMullen (1996) stated that the existence of an AC decreases irregularities and errors in financial reports and improves the credibility of financial statements. Furthermore, Alanezi and Albuloushi (2011) aimed to examine the effect of the existence of a voluntary AC on the level of IFRS-required disclosure practices in Kuwait. Of the 68 firms listed in the Kuwait Stock Exchange (KSE) in 2007 included in this study, only 29 (42.6%) had an AC. The researchers found that the existence of an AC is positively and significantly related to the level of IFRS-required disclosure. Kunitake (1983) found that firms without ACs change external auditors more frequently than those with ACs. As a liaison between the external auditor and the board, the AC minimises information asymmetry between them, facilitates the monitoring process (Klein, 1998; Sori et al., 2007) and enhances the independence of the auditor (Mautz and Neumann, 1977).

From another perspective, a number of studies have found that ACs are ineffective. For instance, Pucheta-Martinez and Fuentes (2007) conducted a study in Spain before ACs became mandatory, examining the association between the possibility that a firm will receive a qualified audit report and the existence and characteristics of an AC. The findings of their study suggest that the existence of an AC has little or no effect on the quality of financial reporting. Al-Shammari (2014) investigated the association between CG tools and corporate risk disclosure in the annual reports of 109 non-financial companies listed on the KSE in 2012 and found that only 42 firms had a voluntary AC. Most importantly, the findings of this study indicate that the relationship between corporate risk disclosure and the existence of ACs is insignificant. Although some studies conclude that ACs are ineffective, this is unlikely to be due to the AC being a tool per se but to the development and structure of each given AC, as will be discussed in depth in the following section.

3.3.5 Audit committee effectiveness

One of the research questions in this thesis concerns the perceptions of the interviewees regarding the extent to which they believe that listed firms will implement the AC effectively. In order to understand this, it is helpful to review studies about the effectiveness of ACs and discuss the factors that impact the work of ACs. The simple existence of an AC does not mean that it can achieve its roles and responsibilities effectively. Kalbers and Fogarty (1993) state that the establishment of an AC does not provide evidence about the actual levels of monitoring that will be carried out. For instance, a number of firms (e.g., Enron and WorldCom) had an AC when they collapsed. In Enron's case, 2001, the AC failed to oversee the firm's external and internal auditors and the integrity of the financial statements due to conflicts of interest

involving AC members (Solomon and Solomon, 2004). Vicknair et al. (1993) state that the lack of an effective AC in practice is a critical reason for a firms' financial problems. Carcello et al. (2002) argue that, in the aftermath of Enron and other financial reporting scandals, it has become even more important to differentiate between ACs that work only on paper and those that effectively monitor financial reporting and controls. Menon and Williams (1994) argue that not all firms use their ACs actively and that, in many cases, the purpose of forming ACs is cosmetic. Having such an AC might be worse than not having one at all, since in such a case the management is deceiving stakeholders into thinking that effective oversight is taking place. Chen and Zhou (2007) found that companies with AC members who have independence and financial expertise would decide to dismiss Arthur Andersen more quickly than those with AC members without these traits.

A number of researchers have attempted to define an effective AC and to provide a framework for AC effectiveness. For instance, DeZoort (1998) defines effectiveness as a committee's collective ability to meet its oversight objectives. Based on this definition, effectiveness is obtained when an AC has the ability to carry out its roles. DeZoort et al. (2002) define an effective AC as having qualified members with the authority and resources to protect shareholders' interests by ensuring reliable financial reporting, internal controls, and risk management through its diligent oversight efforts. Thus, according to this definition, the characteristics and composition of an AC are significant elements in determining its effectiveness. Further, Sharma et al. (2011) maintain that poor AC characteristics (e.g., lack of expertise or independence) weaken AC monitoring and, thus, financial reporting quality. Sabia and Goodfellow (2005), for their part, stress that ACs can be effective if they contain the right people, whereas

DeZoort et al. (2002) emphasise that AC effectiveness is determined by three important input elements, namely composition, authority and resources, and one process factor (diligence). AC composition refers to independence and financial expertise. Authority refers to an AC's responsibility and influence. Without authority, an AC cannot ask questions of management, auditors, or internal controls, thereby preventing AC effectiveness. Therefore, it is important to give ACs the appropriate authority to achieve their responsibilities. Cohen et al. (2004) believe that ACs must have sufficient expertise and real power to function as effective overseers of management activities. AC responsibilities, as identified in the regulations, should also be recorded in the AC charter – not only to provide guidance to AC members, but also (and more importantly) to provide them with the power they need to discharge their duties (Bedard et al., 2004). DeZoort et al. (2002) define an AC's resources as the number of members of the AC and its access to internal controls, external auditors and management. An AC should obtain sufficient access and resources to carry out its roles effectively.

Many regulators around the world have introduced extensive additional AC recommendations and regulations, typically focusing on AC characteristics like composition, size and meeting frequency in order to enhance AC effectiveness. In this regard, numerous research studies have examined the relationships among and impacts of these characteristics of AC on the primary components of AC effectiveness (i.e. the output), such as financial reporting quality (e.g. Campbell et al., 2014; Dhaliwal et al., 2010; Rochmah and Ghazali, 2012; Dellaportas et al.,, 2012; Bin-Ghanem and Ariff, 2016.; Saleh et al. 2007; Al-Akra et al., 2010), external audit quality (Beck and Mauldin, 2014; Malihi et al., 2012; Abdullatif, 2006) and internal control quality (Adel and Maissa, 2013; Alzeban, 2015; Barua et al., 2010; Dhaliwal et al., 2010; Zain et al.,

2006; Krishnan and Visvanathan, 2008; Sarens et al., 2013). These studies generally found that independence, expertise, and AC size were positively associated with higher quality financial reporting and auditing. Other researchers have gone beyond the requirements and characteristics of regulations, arguing that regulations alone do not ensure AC effectiveness. For example, Bedard and Gendron (2010), Carcello et al. (2011), Martinov-Bennie (2007) and Contessotto and Moroney (2014) argue that regulations do not guarantee the effectiveness of ACs. For instance, Cohen et al. (2010) found that auditors report considerably enhanced CG post-SOX, with significantly more active, knowledgeable, diligent and influential ACs. However, in some cases, governance seems to be symbolic. For instance, management still plays a major role and is frequently the driving power behind auditor terminations and appointments. Furthermore, some auditors report that the AC plays an inactive role in resolving disputes with management. Contessotto and Moroney (2014) contend that, despite believing that ASX recommendations are valuable signs of AC effectiveness, auditors in Australia depend on classified traits (e.g., independence, resources and AC member diligence) when evaluating AC effectiveness. In the following section, the main factors that might affect ACE are discussed and critically evaluated, as are the impacts and relations of these factors to AC effectiveness components.

3.3.5.1 Independence

Since the main role of the AC is to protect shareholders from management interests by monitoring activities, it is very important that the AC should be comprised of outsider directors who are independent from managers. The SEC has stated that having an AC that comprises insider directors may be worse than not having an AC at all because, in this situation, the management may mislead stockholders into thinking that effective

oversight is taking place (SEC 1980, cited in Menon and Williams, 1994). Independence is defined as the absence of a connection with the firm that may hinder the exercise of independence from the firm and its management (BRC, 1999). Thus, many recommendations and regulations have been introduced to ensure ACs' independence from management and, consequently, ensure their effective achievement of responsibilities. For instance, the SOX and the Smith Committee (2003) requires that ACs should be comprised completely of independent directors.

Many researchers have conducted studies to find out the relationship between the independence of AC members and financial reporting quality, external auditors' work and internal control. For instance, a number of researchers have found that a higher number of independent members is associated with the higher quality and enhanced credibility of financial reporting and disclosure (Bedard et al., 2004; Garcia-Meca and Sanchez-Ballesta, 2009; Klein, 2002; Saleh et al., 2007; Cohen et al., 2011; Hussainey and Al-Najjar, 2012) and internal auditing (Krishnan, 2005; Alzeban and Sawanb; 2015; Alzeban, 2015; Zain et al., 2006) and audit quality (Cohen et al., 2011; Chen et al., 2005 Lee et al. , 2004; Sultana et al., 2015).

From another perspective, some studies found no association between AC members' independence and financial reporting quality, internal and external auditing work (e.g. Hamdan and Mushtaha, 2011; Adel and Maissa, 2013; Hamdan et al., 2013). These researchers attribute these results to the fact that these members might be independent in appearance but in reality there is no independence. In fact, many researchers have questioned the independence of AC members. For instance, researchers in MENA

countries (e.g. Al-Twaijry et al., 2002 Abdullatif, 2006; Hamdan et al., 2013; Adel and Maissa, 2013; Abdullatif et al., 2015; Siam et al., 2018) believe that independent members in these countries are not actually independent, and they attribute this issue to the dominance of family ownership. Qasim (2018) conducted a questionnaire study in the UAE with members of ACs, academics, external auditors, and governmental regulators and found out that the participants believed that the independence of AC members is considered to be the most significant element contributing to AC effectiveness. Kamel and Elkhatib (2013) also surveyed senior accountants, academics, and auditors and reached the same finding.

In developed countries, Malik (2014) argues that the definition of independence as provided by the SOX considers only the economic ties between AC members and management, failing to cover social ties. Furthermore, although the SOX requires the nomination committee or the independent board members to be responsible for the selection of AC members, the involvement of the CEO in the selection process may still potentially influence the board (Carcello et al., 2011). In addition, Bruynseels and Cardinaels (2013), Beasley et al. (2009) and Carcello et al. (2011) argue that many ACs that seem to be fully independent are not independent in reality since CEOs often hire members from their social networks. This involvement may hamper the independence of ACs. Bruynseels and Cardinaels (2013) found that about 39% of all ACs are not fully independent due to their social ties with CEOs. They emphasised the presence of a negative relationship between social ties and both financial reporting and audit quality, arguing that social relationships may weaken oversight duties. In such cases, instead of overseeing management, ACs tend to serve management's interests, thereby turning into merely symbolic tools. Carcello et al. (2011) found that fully independent ACs

which include financial experts have fewer financial restatements, but this is only achievable when the CEO is not involved in the selection of AC members. Put simply, if AC members are not independent from firms' management, then the oversight role of the AC may not be effectively achieved. Hence, regulations should concentrate on this relationship in order to improve AC independence and enhance its effectiveness.

3.3.5.2 Financial expertise

Financial expertise among AC members is a significant factor in improving the effectiveness of ACs, since the assigned roles and responsibilities require adequate financial knowledge and experience (Abbott et al., 2004; Puspitaningrum and Atmini, 2012; Bedard and Gendron, 2010; Alzeban and Sawan, 2015; Siam et al., 2015; Siam et al., 2018; Chen and Komal, 2018). The literature on expertise indicates that non-experts and experts vary in their decision making and problem solving (Bédard, 1989; Bédard and Chi, 1993). Thus, the more expertise AC members have, the more effective the AC will be. The AC financial expertise is the most important characteristic of AC effectiveness (Griffin, 2016).

Numerous studies have examined the relationship between the financial experience of AC members and the effectiveness of AC in achieving its role (e.g. Siam et al., 2018 and Siam et al., 2015 in Jordan, Alzeban and Sawan, 2015 in the U.K; Alzeban and Gwilliam, 2014 and Alzeban, 2015 in Saudi; Adel and Maissa, 2013 in Tunisia; Zain et al., 2006 in Malaysia; Puspitaningrum and Atmini, 2012 in Indonesia; Bin-Ghanem and Ariff, 2016 in GCC; Soliman and Ragab, 2014 in Egypt). Most of these studies show that the presence of financial expertise in the AC is very crucial for achieving its role. For instance, the financial expertise of AC members was found to have a great

influence on the quality of internal audit (e.g. Adel and Maissa, 2013; Puspitaningrum and Atmini, 2012; Zain et al. 2006) and positively improve audit quality (e.g. Zaman et al., 2011; Chen et al., 2005; Chen and Zhou 2007). Other studies have also shown that the financial experience of the AC improves financial reporting quality and disclosure (e.g. Siam et al., 2018; Cohen et al., 2013 Saleh et al., 2007; Soliman and Ragab, 2014; Elijah and Ayemere 2015; Kankanamge, 2016; Schmidt and Wilkins, 2012).

3.4 Gap in the literature

After reviewing the literature in this chapter, attention can be drawn to the gaps in it. In general, prior studies' on CGC covers a number of areas. The first area concerns finding out the reason behind the implementation of the CGC and reforms (e.g., Aguilera and Cuervo-Cazurra, 2004; Aguilera and Cuervo-Cazurra, 2009; Ananchotikul and Eichengreen, 2009; Cuomo et al., 2016; Enrione et al., 2006; Hansmann and Kraakman, 2001; La Porta et al., 1997; Reed, 2002; Shleifer and Vishny, 1997; Siddiqui, 2010; Zattoni and Cuomo, 2008). These studies review how firms apply the code (level of compliance and the explanations for non-compliance) and discuss the relationship between compliance and firm's performance (e.g. Arcot and Bruno, 2006; Arcot et al., 2010; Shrives and Brennan, 2015; Rose, 2016; Osemeke and Adegbite, 2016; Wanyama et al., 2009; Lepore et al., 2018; Nerantzidis, 2015). In sum, these studies concentrate on the effect and output of the code. However, the prior literature has neglected the process of the development of codes. In this regard, Cuomo et al. (2016) argue that for a better understanding of the roles of different parties (like government authorities, institutional investors, directors' associations, large shareholders, and other parties), a study is needed that focuses on the process of codes development and

investigates the political process which leads to developing and shaping the content of the codes. In fact, the process of institutionalisation, transposition and deinstitutionalisation of CG regulations is under-researched in accounting literature (Contrafatto, 2014). More specially, Mahadeo and Soobaroyen (2016) state that it is not clear how CG requirements adapt and evolve over time in developing countries. Moreover, Ahmad and Mahmood (2015) call for a study that investigates the political process of development and implementation of CGCs in developing countries. Furthermore, Ahmed and Uddin (2018) see a need for studies that further examine actors' strategic choices and actions in processes of restricting institutional change, so that the practice development dynamics in a CG field with logics, which are multiple and often conflicting, might be better understood.

As such, this study aims to respond to these calls and to fill the gap in the literature. This thesis attempts to explore the implementation of the CGC in the State of Kuwait. The timing and context of this study provide a great opportunity to bridge the gap in the literature since the first code, issued in June 2013, by the CMA was based on the mandatory approach. However, listed firms and other interested parties reacted and responded to the CGC and, in November 2016, the CMA decided to replace the code with the new one based on the "comply or explain" principle. Interestingly, no country previously shifted, as a response to firms' reactions, from the mandatory to the "comply or explain" principle in relation to the CGC before the implementation of the code took effect. Furthermore, the implementation of the CGC and ACs in Kuwait was in progress while the researcher was collecting the data for this study. The actual implementation of the code started in June 2016 and the pilot study took place in October 2016. Therefore, the timing of this study provides an ideal opportunity to understand why the

change occurred and how the listed firms perceived, experienced and responded to the introduction of the CGC in 2013 and the reasons for their reactions. In addition, one aim of this thesis is to analyse the strategies that firms in Kuwait used to respond to the old code, which later led to it being changed. This study might also help in understanding the political process of the development of codes, as well as different stakeholders' roles in the development of the code.

Firstly, most previous studies on AC were largely conducted in developed economies (Al-Malkawi et al., 2014). Secondly, as illustrated in the development of ACs section, most of the studies on ACs tried to find the reasons behind the introduction of AC regulations, whereas little attention has been given to the reasons behind the delay in issuing AC regulations / codes / recommendations. Therefore, this thesis aims to address this issue by investigating why there was a delay in issuing AC regulations / codes / recommendations in Kuwait.

Although a number of studies have examined the reasons behind the voluntary formation of ACs, most of these studies have been primarily conducted in developed countries (e.g. in the US: Eichenseher and Shields, 1985; Pincus et al., 1989; Menon and Williams, 1994; in the UK: Collier, 1993; in France: Piot, 2004; in New Zealand: Bradbury, 1990; in Belgium: Willekens et al., 2004; in Australia: Chen et al., 2009). Thus, research on developing countries has been largely ignored in the previous literature. Furthermore, to the best of the researcher's knowledge, there is no study that has investigated why some firms formed a voluntary AC in MENA countries. This study aims to fill this gap by exploring the forces that explain why some firms

voluntarily formed an AC while others did not in an emerging economy – that is Kuwait.

Thirdly, as illustrated in the literature review, most studies that have attempted to investigate the reasons behind the voluntary formation of ACs have opted for a quantitative approach. Generally speaking, many researchers have called for using qualitative methods while studying the topics related to CG and ACs (e.g. Ahrens et al., 2011; Beasley et al., 2009; Carcello et al., 2011; Ghafran and Sullivan, 2013; McNulty et al., 2013; Turley and Zaman, 2004; 2007; Mat Yasin et al., 2014). McNulty et al. (2013) show that qualitative research is largely absent in emerging markets and particularly in the Middle East. McNulty et al. (2013) stated that these types of studies can assist CG researchers in providing a deep and rich knowledge of the phenomena under exploration, and in gaining a greater understanding of the relationships among main stakeholders (e.g. directors, investors, manager and regulators) of the processes leading to decision making. Further, a qualitative study is considered suitable for understanding individuals' motivations, rationalities, actions and behaviors, and the institutional setting for their actions and beliefs in an in-depth way (Reay and Jones, 2015). Thus, this thesis aims to contribute to the literature on CG and ACs by conducting a qualitative study.

In terms of theories, the most dominant theory used in studying CG and ACs is agency theory (e.g. Bédard and Gendron, 2010; Cuomo et al., 2016; Gendron, 2009; Ghafran and Sullivan, 2013; Guthrie and Parker, 2011; Parker and Northcott, 2016). Many scholars (e.g. Cuomo et al., 2016; Parker and Northcott, 2016) call for using different theoretical lenses, rather than the agency theory, to offer new interpretations and a

better understanding of CG. More importantly, many researchers in the field of CG argue that agency theory is insufficient to understand major CG issues in emerging and developing countries due to high ownership concentration and weak and inefficient capital market (Al-Hiyari, 2017; Htay et al., 2013; Siddiqui, 2010). Therefore, this thesis uses the institutional logics perspective (ILP) which has not previously been applied to the study of ACs, and it seeks to contribute to the CG literature by implementing a more interpretive perspective to CG and ACs.

3.5 Conclusion

This chapter reviewed the literature on CG and ACs in developed and developing countries. The chapter started with a section reviewing the studies related to CG. The section discussed the definition of CG, background of the CGC and the approaches adopted to implement CGCs. Also, the effectiveness of each approach to the implementation of CGCs, particularly in developing countries, was reviewed and discussed. The final part of this section reviewed the diffusion of CGCs around the world.

The second section of this chapter was related to studies on ACs. It started with the development and history of ACs showing that many countries introduced them and made them mandatory with the aim of reducing the possibility of corporate failures and scandals. It was seen that ACs are responsible for ensuring the integrity and quality of financial reporting; for maintaining the independence of the external audit process; and for monitoring, evaluating and enhancing the effectiveness of firms' internal control. It was also noticed that there are many motivations behind the voluntary formation of ACs. These motivations are agency costs, firm size, board size, board composition and

management stock ownership. Yet, the simple existence of an AC does not guarantee its effectiveness. Instead, in order to achieve its roles and responsibilities and to be considered effective, an AC must have appropriate composition and characteristics.

Chapter Four: Theoretical Framework

4.1 Introduction

This thesis has a number of aims. The first is to investigate the reasons for the delay in issuing regulations/codes for ACs in Kuwait until 2013. The second is to find out why some companies have voluntarily established ACs when not legally required to do so. The third is to explore how listed firms perceived, experienced and responded to the introduction of the mandatory CGC in 2013 and the reasons for their response. Fourth, this thesis aims to analyse the strategies that firms in Kuwait used to respond to the mandatory code, which led to it being changed. Finally, this study attempts to explore the perceptions of multiple stakeholders (e.g., auditors, regulators, professional institutions, directors, chairmen, and academics) regarding the effectiveness of ACs.

This chapter will provide an overview of the theoretical framework adopted to achieve the aims stated above and the rationale behind using that framework. This study considers the Institutional Logics Perspective (ILP) as a suitable theoretical framework to answer the research questions. Thus, this chapter aims to explain the main principles and assumptions of ILP and why this theoretical lens is more suitable than the other dominant theoretical frameworks (the institutional theory and agency theory) in the CG and AC's literature.

This chapter begins with a discussion of the main theories used in the field of CG and AC. Then, the main assumptions of ILP are provided and explained. The chapter concludes by outlining the reasons why ILP is deemed suitable to achieve the aims of the study.

4.2 Dominant theoretical frameworks in CG and AC research

Prior studies used different theoretical frameworks to explain and analyse CG and ACs issues. The most dominant theory used in studying CG and ACs is agency theory and institutional theory (Bédard and Gendron, 2010; Cuomo et al., 2016; Gendron, 2009; Ghafran and Sullivan, 2013; Guthrie and Parker, 2011; Parker and Northcott, 2016). Cuomo et al., (2016) suggest that future research should use a different theory to provide new interpretations and a better understanding of governance codes. The next two sections intend to outline and discuss these theories to identify some of their features and limitations. This analysis will help to highlight why agency theory and institutional theory are not appropriate frameworks to answer the research questions set in this study. After that, ILP will be discussed in terms of its key features and its suitability for this research.

4.2.1 Agency theory

The availability of corporate ownership to public had a dramatic impact on how corporations were directed and controlled. The separation between ownership and control resulted in agency problems. These were initially analysed by Ross (1973); however, the first theoretical exposition was put forward by Jensen and Meckling (1976). Jensen and Meckling (1976) called the relationship between the owner and mangers the agency relationship. In this Principal-Agent (PA) model the owners (principals) delegate day to day decision making of the business to managers (agent). In finance theory, the main aim of the corporation is to maximise shareholders' wealth. However, in the modern form of a corporation, it is not necessary that the agent makes

decisions in the best interests of shareholders. The main assumption of agency theory is that the goals of agents and principals are in conflict with each other. In practice, it is quite possible that managers may prefer to pursue their personal objectives, such as high salaries or bonuses. On the other hand, owners want to have maximum returns on their investments. The shareholders' perspective of CG emphasises that the corporation should be more accountable to the owners. All the CG issues revolve around this agency problem. This agency problem is considered the main issue CG needs to resolve (see, for example, Shleifer and Vishny, 1997; Hansmann and Kraakman, 2001). The agency theory, then, gives preference to the dyadic relationship between agents (manager) and principals (owners).

Agency theory has received many criticisms. For instance, many researchers (e.g. Lubatkin et al., 2007; Aguilera and Jackson, 2010) argued that agency theory is under-socialised as it reduces firms' social relationships to a simple dyad relationship between self-interested and economically motivated actors. The under-socialised view of human behaviour means each actor is considered economically rational and marginally influenced by social context. As such, agency theory overlooks the fact that actors may define interest in various ways (Schulze et al., 2001; Gomez-Mejia and Wiseman, 2007). Particularly, it overlooks the reality that 'interest' is partly defined on a social basis, and therefore that actors may be driven in a different way due to their structural and social positions. Actors behave either in a self-serving or opportunistic manner, and their behaviour is influenced by the organisation's social context (Aguilera and Jackson 2003). For this reason, this thesis posits that agency theory is too narrow. Furthermore, many researchers argue that the agency theory is insufficient to understand major CG issues in emerging and developing countries due to high ownership concentration and

weak and inefficient capital market (Al-Hiyari, 2017; Htay et al.,2013; Ozcan and Cokgezen, 2003; Siddiqui, 2010).

CG regulations and practices are embedded in the broader institutional environment (Hollingsworth and Boyer 1997; Aoki, 2002), but agency theory is incapable of uncovering how CG can be mediated by the diversity of institutional arrangements. In other words, agency theory does not take into account the impact of the broader social, economic, and political circumstances which are necessary to understand CG regulations and practices in different institutional arrangements. Keeping in view the objectives of this study, the narrow shareholder centric agency theory perspective is not considered suitable for this research.

4.2.2 Institutional theory

Institutional theory is one of the most commonly used theoretical lenses in CGCs and ACs literature. Institutional theory overcomes the preference of agency theory for dyadic relationships between the principal and the agent by focusing on how the institutional environment—including the broader social, economic, and political environment—affects organisational practices and characteristics (Martinez and Dacin, 1999).

According to Scott (2001: p.48), institutions are "social structures that have attained a high degree of resilience". These social structures are comprised of three core pillars: normative, regulative and cognitive-cultural (Scott, 2008). The regulative pillar includes rules and regulations developed and implemented by regulatory institutions or states. The normative pillar, which includes the prevailing norms and values in a

society, defines the legitimate way to pursue goals. The cultural-cognitive pillar recognises the role of the logic of action, shared conceptions of social reality and common beliefs about what is right and wrong in a given context. In highly institutionalised environments, organisations must conform to these social structures in order to survive, gain access to resources and legitimise their actions. When many organisations start conforming to these beliefs, they become similar to rules.

There are different perspectives for institutional theory that could be used in order to understand the CG and AC issues, and these include Old Intuitional Economics (OIE), New Institutional Sociology (NIS), and New Intuitional Economics (NIE). Although these three perspectives have different roots and origins, they share the concern for institutional changes (Powell and DiMaggio, 1991; Burns and Scapens, 2000). According to NIE, individuals have constant tastes and preferences and seek to maximise their self-interest (Burns 1996). NIE extends the classical economic approach by applying the assumptions of economic rationality and markets to the governance of organisations (Scapens, 2006). Therefore, NIE is more concerned with the optimal outcomes rather than explaining the changing processes, so it does not recognise the influence of the broader political, economic and social institutions which could be more important in understanding CG and AC. Regarding the OIE theory, its main focus is on the institutions that inform the actions, and it attempts to understand the behaviours of actors with regards to rules, routines and institutions (Scapens, 2006). Therefore, the theory is concerned with the intra-organisational process rather than the extra-organisational processes. In other words, it does not take into consideration the external pressures stemming from the political, economic and social institutions. As for NIS theory, it is more concerned with the extra-organisational pressures. NIS theorists argue

that to gain legitimacy, organisations have to act according to what is expected of them, and this process explains why organisations in a particular society are similar, which is known as the process of homogenisation (Scapens, 2006). Isomorphism is the concept used to capture the process of homogenisation. More specifically, isomorphism is defined as a "constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (DiMaggio and Powell, 1983, p.149).

Coercive isomorphism results when powerful bodies exert both formal and informal pressure on organisations to conform to the cultural expectations of the society within which they operate (DiMaggio and Powell, 1983). *Mimetic isomorphism* occurs when organisations follow other successful organisations so that their activities are not questioned. *Normative isomorphism* primarily stems from professionalisation. Scholars have identified various pressures leading to isomorphism regarding the diffusion of CGCs around the world. For example, Siddiqui (2010) argued that international financial agencies have forced many emerging economies to follow internationally accepted CG practices in order to obtain loans. Also, many developing countries mimic the Anglo-American model of CG. Agency theory, which focuses on shareholders' dominance, stipulates that organisations should be governed to protect shareholders' rights. This has become part of the CG reform agenda in most parts of the world, leading to institutional isomorphism.

The use of NIS theory is not without limitations. One major criticism of NIS is that it recognises institutionalisation as an outcome rather than a political process. The limited focus of NIS on outcomes limits the understanding of institutional change, the origin

of change, reproduction and deinstitutionalisation (DiMaggio, 1988; Dillard et al., 2004). What becomes institutionalised depends on powerful actors who support, oppose, or strive to influence organisations (Clegg, 1989). Another limitation of NIS is its focus on macro-level analysis; it examines the influence of the institutional environment on organisations, not vice versa. Without micro-level analysis, it is difficult to determine whether practices are successfully institutionalised at the organisational level and how organisational practices may influence the institutional environment. For instance, Uddin and Choudhury (2008), who studied CG practices in a traditional, family-dominated society, found that family-owned companies symbolically complied with the mechanisms of CG prescribed in CG regulations.

In general, the regulatory process is influenced by not only the political, social and economic context but also powerful actors. Institutional theory emphasises the restrictive nature of institutionalised beliefs and values on organisational actions and ignores the role of agency, power and politics in organisational practices. Previously, scholars have mainly used institutional theory to understand the impact of institutions on organisational actions but ignored the impact of field-level and organisation-level practices on the institutional environment as well as how these institutions are established, change and disappear.

Prior studies have also used institutional theory to understand what makes organisations similar (DiMaggio and Powell, 1983). Generally, organisations pursue economic goals and attempt to align their structure with the expectations of the society within which they operate. However, organisations may face conflict and inconsistency between the demand for efficiency and ceremonial rules in an institutional context (Meyer and

Rowan, 1977). In such situations, organisations' actual practices may be separate from the formal organisational structure, a phenomenon called decoupling, which may result in symbolic compliance and heterogeneous organisational practices.

This study investigates the process of implementation of CGC in Kuwait and why changes occurred from the mandatory code to 'comply or explain'. Specifically, it examines the role of power, politics and influential stakeholders (e.g. the KCCI) in the implementation of CGCs in Kuwait and why listed firms experience, perceive and respond differently to the CGCs introduced in Kuwait. It also looks into the reasons for the delayed issuance of AC regulations in Kuwait and why some firms have voluntarily formed ACs and others have not. As institutional theory focuses on explaining organisational homogeneity, legitimation and isomorphism rather than heterogeneity, it has been deemed unsuitable for this study.

To overcome the limitations of agency theory and institutional theory discussed above, this study adopts ILP as a theoretical lens. The next section will describe ILP, including its basic principles, underlying assumptions, rationale and limitations.

4.3 Institutional logics perspective: Background and definitions

The term "*institutional logics"* was first coined by Alford and Friedland (1985) to explain the contradiction in beliefs and practices existing naturally in the institutions of contemporary western societies. A number of researchers (Friedland and Alford, 1991; Thornton and Ocasio, 1999; Lounsbury, 2001; Thornton 2004; Thornton and Ocasio, 2008; and Thornton et al., 2012) have further elaborated it into a theoretical framework. The latest elaboration on this theory by Thornton et al. (2012), who state that ILP is a

"metatheoretical framework for analysing the interrelationships among institutions, individuals, and organisations in social systems" (Thornton et al., 2012: 2). They argue that ILP is a practical and valuable lens to study how organisations and individuals shape, and are being shaped by, their institutional settings. Thornton et al. (2012) stated that ILP helps researchers interested in enquiries of how organisations and individuals are influenced by their situations in several social positions in an inter-institutional system.

Friedland and Alford (1991, p. 232) defined Institutional logic as "supra-organizational patterns of activity through which humans conduct their material life in time and space, and symbolic systems through which they categorize that activity and infuse it with meaning." They also state that institutional logics are "a set of material practices and symbolic constructions, which constitutes its organising principles" (p. 248). Thornton and Ocasio (1999, p. 804) defined institutional logic as "the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organise time and space and provide meaning to their social reality." Thornton and Ocasio (2008, p. 101-102) argue that despite the existence of several definitions of institutional logics, they all have in common the same primary concept and help researchers "to understand individual and organisational behaviour…, and [that] this institutional context both regularizes behaviour and provides opportunity for agency and change."

In this section, the main core assumptions of ILP will be discussed. These assumptions are: society as an inter-institutional system, embedded agency and the historical contingency of institutional logics.

4.3.1 Society as an inter-institutional system

The core innovative idea of Friedland and Alford's (1991) work is the conceptualisation of society as an interinstitutional system (Thornton et al., 2012). Friedland and Alford (1991) viewed society as an interinstitutional system constituted by subsystems of different institutional orders, each presenting a distinctive view of rationality. In other words, they argued that there are various institutional orders that shape and comprise any society. In this respect, they pinpointed five institutional orders that exist in Western societies: capitalist markets, nuclear families, the bureaucratic state, democracy, and the Christian religion. In their view, individuals and organisations in a given society are influenced by these institutional orders which coexist in society and which might conflict given that each institutional order has a central and distinctive logic. Therefore, it is argued that any organisational field might be subject to the impact of more than one institutional order (Greenwood et al., 2015).

This innovative idea was used and developed further by Thornton (2004), Thornton and Ocasio, (2008), and Thornton et al. (2012). For instance, Thornton (2004) revised and elaborated on these orders, including the orders of the corporation and of the profession as essential organising principles within society. Further, the latest work of Thornton et al. (2012) identified ideal types and determined that the societal interinstitutional system comprises seven institutional orders: state, market, corporation, family, religion, profession and community (see table 4.1). These institutional orders are located on the X-axis in their ideal type.

Each institutional order is made up of building blocks or elemental categories. These blocks are placed in the Y-axis of the ideal type. These building blocks represent the material practices, symbols, and organising principles of each institutional order. Each institutional order, in turn, embodies a governance system which functions as a frame of reference that preconditions actors' rational choices (Thornton et al., 2012). Thus, individual and organisational interests, preferences, and behaviours, when guided by one of the institutional orders, are shaped by these building blocks (Friedland and Alford, 1991). The table below presents the ideal types of interinstitutional system as per Thornton et al. (2012), which make up the seven logics and their building blocks.

Table 4.1 The Ideal Type of Interinstitutional System

Table 3.2. Revised Interinstitutional System Ideal Types

Y-Axis:	**X-Axis: Institutional Orders**						
Categories	**Family 1**	**Community 2**	**Religion 3**	**State 4**	**Market 5**	**Profession 6**	**Corporation 7**
Root Metaphor 1	Family as firm	Common boundary	Temple as bank	State as redistribution mechanism	Transaction	Profession as relational network	Corporation as hierarchy
Sources of Legitimacy 2	Unconditional loyalty	Unity of will Belief in trust & reciprocity	Importance of faith & sacredness in economy & society	Democratic participation	Share price	Personal expertise	Market position of firm
Sources of Authority 3	Patriarchal domination	Commitment to community values & ideology	Priesthood charisma	Bureaucratic domination	Shareholder activism	Professional association	Board of directors Top management
Sources of Identity 4	Family reputation	Emotional connection Ego-satisfaction & reputation	Association with deities	Social & economic class	Faceless	Association with quality of craft Personal reputation	Bureaucratic roles
Basis of Norms 5	Membership in household	Group membership	Membership in congregation	Citizenship in nation	Self-interest	Membership in guild & association	Employment in firm
Basis of Attention 6	Status in household	Personal investment in group	Relation to supernatural	Status of interest group	Status in market	Status in profession	Status in hierarchy
Basis of Strategy 7	Increase family honor	Increase status & honor of members & practices	Increase religious symbolism of natural events	Increase community good	Increase efficiency profit	Increase personal reputation	Increase size & diversification of firm
Informal Control Mechanisms 8	Family politics	Visibility of actions	Worship of calling	Backroom politics	Industry analysts	Celebrity professionals	Organization culture
Economic System 9	Family capitalism	Cooperative capitalism	Occidental capitalism	Welfare capitalism	Market capitalism	Personal capitalism	Managerial capitalism

Individuals and organisations in a given society are influenced by these institutional orders. Since each order has its own distinct rationalities and logics, it may cause different actions to be taken by providing different reference points for these actions (Goodrick and Reay, 2011). Due to differences among the categorical elements that constitute institutional orders (as it is shown in the table 4.1), what is considered rational in one particular order might not be rational in another. Simply put, the rationality differs from one institutional order to another. For instance, family logics give importance to family norms and values which are created over a period of time. Agents, actors, and members of families who follow family logic are primarily concerned with their family's honour and reputation. Actors embedded in family logic use these rationales to justify their efforts to increase family wealth.

From the state logic perspective, the main aim of the state is to promote an equal distribution mechanism among its citizens. Therefore, the basis of state logic is to increase the collective good (Thornton et al., 2012). Lee and Lounsbury, (2015) stated that state logics promulgated by governmental agencies seek to focus attention on appropriate rule-following behaviour. State logic is concerned with adhering to government's regulations, protecting its assets and fulfilling its objectives (Dai et al., 2017).

From the market logics perspective, the actors and organisations embedded in this logic are concerned with self-interest and profit-seeking. In this logic, sources of authority is shareholder activism. In addition, the goal of the firm is to improve its market status among competitors. Following market logic, it is rational that organisations or

individuals are driven purely by the calculation of costs and benefits of decisions or actions (Thornton et al., 2012).

Corporate logic supplements market logic in terms of concentrating on economic value (Thornton, 2002). Nevertheless, corporate logic simultaneously pays attention to effectiveness in managing the firm and its organisational culture and improving the firm's market position (Thornton et al., 2012). Additionally, the source of authority under the corporate logic is upper management while the source of legitimacy is the market position of the firm. To distinguish between market logic and corporate logic, the latter is largely motivated by internal factors, whereas the former is more influenced by external factors.

According to professional logic, actors pay more attention to status in the profession. The basis of their strategy is to increase their personal reputation. The source of the authority in this order is the professional association. Goodrick and Reay (2011) hypothesise that embedding individuals in professional logic helps make the content of their work meet professional standards.

Considering the society as an interinstitutional system, one assumes that there is no single rationality which dictates individual and organisational behaviour, but rather multiple contradictory sources (Thornton and Ocasio, 2008). This is because there is not only one source of rationality but multiple ones. Friedland and Alford (1991) argue that rationality is a relative notion which depends upon the placement of organisations and individuals in one or more of the institutional orders in the interinstitutional system. In other words, the meaning of rationality differs by institutional order. The

contradictions and conflict amongst the logics of different institutional orders help in understanding heterogeneity, agency and change in a particular societal sector. This concept distinguishes ILP from the isomorphism analysis of NIS, which focuses more on homogeneity than on heterogeneity.

4.3.2 Social actor and social action

Friedland and Alford (1991) propose two distinct ideas about the association between individuals and organisations on the one hand and institutional logics on the other. They argue that institutional logics provide both opportunities and constraints for individuals and organisations. The constraints assumption is based on the idea that institutional logics shape organisational and individual identities, interests, and values, as well as the type of actions required to fulfil preferences and interests (Thornton and Ocasio, 2008; Friedland and Alford, 1991; Thornton et al., 2012). Therefore, dominant institutional logics are taken for granted. For instance, when social actors are embedded within market logics, this logic shapes and constrains actions, behaviours, and preferences of the individuals and organisation (Greenwood and Suddaby, 2006; Friedland and Alford, 1991; Thornton and Ocasio, 1999; Thornton and Ocasio, 2008; Thornton et al., 2012). In other words, when an individual or organisation is embedded in a particular institutional order, individual and organisational interests, preferences and behaviours are guided by this institutional order. ILP further proposes that although organisational and individual actions and behaviours are guided by institutional orders. Actors have the ability to exercise agency in choosing between multiple orders that they can act upon (Friedland and Alford 1991), and this is what is called embedded agency (Greenwood and Suddaby, 2006; Friedland and Alford, 1991; Thornton and Ocasio, 1999; Thornton and Ocasio, 2008; Thornton et al., 2012).

This leads us to the second assumption about the relationship between institutional logics and individuals. This assumption stresses the conflicting institutional orders that organise contemporary societies. Institutional contradictions offer organisations and individuals opportunities for institutional change and agency by exploiting these contradictions. Therefore, agency and heterogeneity result from conflict among the logics of different institutional orders which make actors perceive various sources of rationality (Thornton and Ocasio, 2008). These assumptions differentiate ILP from the macro structural approaches of NIS and the Parsonian perspective of the rational choice theory. The macro structural approach gives priority to structure over actions on the one hand and the rational choice perspective assumes primacy of individual interests on the other (DiMaggio and Powell, 1983).

This study aims to explore and explain how institutional logics influence the behaviour, practices and motivations of listed firms toward the introduction of CG and AC. Further, this study hypothesises that prevailing institutional logics in the Kuwaiti context influence the actions and behaviours of individuals and organisations. Additionally, since one of the research questions of this study was to find out why, in the absence of regulatory forces, some firms voluntarily formed ACs while others did not, it is believed that institutional logics might be the motivation behind the adoption (or rejection) of this practice. Institutional logics focus on decision-making within certain sets of problems and solutions (Ocasio, 1997), and therefore they guide organisations' decisions as to whether to implement certain practices (Shipilov et al., 2010). For instance, some studies (e.g. Lounsbury, 2007; Marquis and Lounsbury, 2007) suggest that the adoption of a certain practice can be influenced by how this

practice relates to prevailing institutional logics. Thus, it is believed that the core assumptions of interinstitutional systems and embedded agency suggested by ILP will be suitable in achieving the aims of this study.

4.3.3 Historical contingency of institutional logics

Historical Contingency of Institutional Logics is another very important theoretical assumption of ILP. Thornton et al. (2012) state that this assumption is in line with institutional theory, which draws attention to the influence of the environment on individual and organisational actions. Friedland and Alford (1991) maintain that the influences of institutional orders vary over time. One institutional order might dominate one time period but may lose its dominance in others. Furthermore, prevailing institutional logics differ according to the context given by their particular historical, economic, political, and environmental characteristics (Friedland and Alford, 1991). For instance, family and religion logics are more significant in traditional societies (Thornton, 2015). Modern societies are usually more influenced by the logics of the profession, the state, the market, and the corporation (Thornton et al., 2012; Thornton, 2015). Yet, the prevalence of one institutional order does not necessarily mean that it totally replaces another (*ibid*). Thornton et al. (2012) emphasise that the patterns of dominance and evolution in institutional orders are far from a simple linear development model guided by scientific achievement.

Friedland and Alford (1991) and Thornton (2008), therefore, state that a finding which is valid in one context and one historical time period may not be valid in a different context and in a different time period. For instance, Thornton (2004) examined the historical contingency of higher education in the publishing industry and partitioned

the consolidated findings by particular and universal effects in relation to time. He found that founder and ownership effects were universal and remained effective across time periods but that relational and structural effects were time-specific and were influenced by prevailing institutional logics.

It has to be mentioned here that the goal of ILP's assumption of institutions as historically contingent is not to develop universal theories of institutionalisation but to examine whether social actions and behaviour are universal through space and time or whether they pertain to one historical time and social context.

4.3.4 Interaction among institutional logics

Society comprises multiple institutional orders, each of which has its own central logic which is different from the logic of other institutional orders. These institutional logics interact with each other. They might complement, reinforce, or contradict each other. According to Thornton (2015), the levels of interdependence and conflict among the building blocks of the institutional orders vary. For instance, the practices and values of the logic of family and the logic of market are likely to be more opposing while those of the professions and the state could be more interdependent, especially within the analysis of Western societies. One of the clearest illustrations of this complementary relationship is between market logics and corporation logics, since both are profit-seeking (Thornton et al., 2012). Furthermore, Greenwood et al. (2010) showed that the institutions of family and community reinforced each other and tempered market logic in the Catholic Church in Spain. In other words, the logics strengthened each other.

On the other hand, institutional logics might conflict with each other. This is because the proscriptions, prescriptions, norms, and principles of institutional logics differ. Thus, competing logics occur when the actors or organisations are not able to reconcile two different logics in their cognition and practice. For instance, Miller et al. (2010) showed that prescriptions and norms prescribed by family logic are often in conflict with prescriptions and norms prescribed by market logic. Therefore, Thornton (2015) states that the values and practices of the family logic are more likely to oppose those of the market logic.

Logics within a single field may also compete, peacefully coexist, replace each other, hybridise or blend, or make a short term "truce" (Meyer and Höllerer, 2010). Reay and Hinings (2009) found that the rivalry between the challenger logic (business-like health care introduced by governments) and incumbent logic (medical professionalism) is long-standing. Hybrid logic occurs when two different logics are combined and the actors' identities become somewhat merged. For instance, in organisations based on hybrid logics, two diverse and apparently competing logics reinforce each other to maintain the organisation, such as the commercial logic and the social welfare logic in organisations that re-employ and train unemployed people in France (Pache and Santos, 2013).

4.3.5 Institutional complexity and organisational response

Friedland and Alford (1991) conceptualised that organisational fields are continuously exposed to multiple logics. Thus, organisations are usually confronted with various and sometimes incompatible institutional logics (Greenwood et al., 2011). According to Besharov and Smith (2014), logics become increasingly compatible once they provide

strengthening and consistent prescriptions for beliefs and actions, and vice versa. In Greenwood et al.'s (2011) review, the term 'incompatible' is used to refer to logics that are in conflict and competition.

Pache and Santos (2010) refer to the different pressures as "institutional demands" (rules and regulations, normative prescriptions, social expectations and institutional logics). Demands such as these may be applied by external agents, such as when new regulations are issued (Pache and Santos, 2010). The researchers define the conflicting institutional demands as "antagonisms in the organizational arrangements required by institutional referents" (Pache and Santos, 2010: 457). For instance, profit-seeking organisations have been found to lend themselves to the competing influence of investors, partners, regulators, shareholders, and professionals. Thus, these organisations face and experience conflicting institutional demands. In the same vein, Greenwood et al. (2011) used the term "institutional complexity" to describe the situation when organisations confront incompatible institutional demands. They posited that there are two aspects of institutional complexity: the sheer number of logics, and the relative incompatibility between them.

Organisations are not passive receivers of institutional demands but they rather interpret, translate and, in some cases, transform them (Kraatz and Block, 2008). Therefore, institutional theorists study how institutional complexity is perceived by individuals and organisations and how the latter respond to and deal with it. Furthermore, under some circumstances, organisations which respond to multiple and conflicting institutional demands sometimes encounter a problem in responding to one

institutional demand at the expense of others (Pache and Santos, 2010; Greenwood et al., 2011).

The extent to which organisations are in confrontation with institutional complexity depends on the structure of the organisational fields in which these organisations are based (Greenwood et al., 2011). Moreover, not all organisations within the same field are affected equally by the pressures of institutional complexity (Pache and Santos, 2010; Greenwood et al., 2011). Put another way, organisations experience institutional complexity differently and to various degrees, which in turn allows them to respond differently. This is due to a number of factors that determine to what extent organisations are subject to institutional complexity and institutional demands. Greenwood et al. (2011) and Greenwood et al. (2015) posit that organisational attributes shape how organisations experience and perceive complexity and construct a repertoire of reactions available to them, as well as how they react to institutional complexity. These attributes are ownership, structure, governance, and identity. Moreover, such attributes can cause organisations to become highly sensitive to certain logics but less sensitive to others. Pache and Santos (2010) also suggest other determinants, such as the profile of organisational leaders, the composition of the board, and cognitive factors such as past experiences.

Pache and Santos (2010) also propose that there are two factors that determine the organisation response to incompatible institutional demands. The first is the nature of the institutional conflict, i.e. whether it influences organisations on an ideological level (goals) or on a functional level (means). This factor affects the negotiability of the conflict. The conflict over goals is more challenging than that over means because the

former challenges the core and primary understanding of what the organisation is about. On the other hand, the conflict over means occurs when there are disagreements over technical issues and how to achieve goals.

The second factor that determines how organisations experience and respond to competing institutional demands relates to how far the demands are represented within the organisation (absence, single or multiple). This internal representation is affected by broader societal institutional logics. Actors represent and bring to an organisation the meanings and norms of logics to which they have been exposed. Organisational members who have been trained or socialised in a particular logic are likely to be committed to defending it if it faces any obstacles (Pache and Santos, 2010). Thus, it is crucial to consider which aspects of conflicting institutional demands are internally represented – as well as the nature of the demands themselves – to understand how organisations experience and respond to institutional conflicts. Greenwood et al. (2011) also emphasise that some groups within the organisation are more powerful than others. Thus, the organisational response may possibly reflect the interests of the most powerful group.

Pache and Santos (2010) build on the Oliver (1991) typology (acquiescence, compromise, avoidance, defiance and manipulation) and suggest a framework of possible strategy responses based on the interaction between these two factors. Table 4.1 summarises and provides the Oliver (1991) typology of the strategic behaviours that organisations may use in response to demands to conform with the institutional environment. Table 4.2 summaries the Pache and Santos (2010) framework.

Table 4.2 Oliver's (1991) typology of strategic behaviours in organisations (cited in Pache and Santos, 2010)

Strategies	Tactics	Definition
Acquiescence	Habit, imitate, comply	Adoption of demands.
Compromise	Balance, pacify, bargain	An attempt to achieve partial conformity in order to at least partly accommodate all institutional demands.
Avoidance	Conceal, buffer, escape	An attempt to preclude the necessity to conform to institutional demands.
Defiance	Dismiss, challenge, attack	Explicit rejection of at least one of the institutional demands.
Manipulation	Co-opt, influence, control	Active attempt to alter the content of the institutional demands.

Table 4.3 Pache and Santos' (2010) framework of strategic behaviours in organisations

Conflict over Internal Representation	Means	Goals
Absent internal representation	Organisations are more likely to resort to compromise and avoidance than to other response strategies. (p.464)	Organisations are more likely to resort to avoidance and defiance than to other response strategies. (p. 467)
Single internal representation	Organisations are more likely to resort to avoidance and defiance than to other response strategies. (p. 465)	Organisations are more likely to resort to avoidance, defiance, and manipulation than to other response strategies. (p. 467)
Multiple internal representation	Organisations are more likely to resort to compromise strategies when internal power is balanced and to manipulation strategies when internal power is unbalanced. (p. 466)	Organisations are more likely to resort to manipulation than to other response strategies. Yet the more balanced the internal power structure, the more likely that manipulation will fail, leading to organisational paralysis or breakup. (p. 468)

Greve and Man Zhang (2017) suggest that there are two sources of power, external and internal, that influence decisions when organisations face conflicting institutional demands. The researchers state that ownership represents the external source of power, while the board of directors and management represent the internal source. They propose that ownership offers formal control rights over a company; however, exercising those external rights requires internal representation (for example, on the board of directors). In other words, the external power of owners and the internal power of decision makers jointly determine strategic decisions.

There are other factors that might affect the degree of institutional complexity and organisation response. For instance, Besharov and Smith (2014) state that the degree of

logic conflict relies not only on the relationship between ideal typical logics but also on attributes of the environment, since logic incompatibility is predominantly historically and culturally contingent. They use Greenwood et al.'s (2010) findings to support their argument, which showed that market and state logics were compatible in Spain, yet incompatible in the U.S. Greenwood et al. (2015) also emphasise that the enquiry of how organisations respond to institutional complexity is an investigation into the association between an organisation and the field (or fields) in which it functions.

Although the body of empirical research concerning institutional complexity is growing, there are a number of questions that need to be answered. For instance, Pache and Santos (2010) call for future research to explore how organisational responses shape the structuration of fields, and Greenwood (2011) calls for an exploration of how organisational responses have influenced on field structure and institutional pluralism. Furthermore, Greenwood (2011) indicates that most studies using ILP investigated the influence of two institutional orders in a certain context, suggesting that there is a need for more attention not only when there are two competing logics but also when there is a multiplicity of logics in play in any particular context.

4.4 Rationale of ILP as a theoretical lens

This thesis seeks to explore the introduction of ACs and the implementations process of CGC in the State of Kuwait. It is believed that the core assumptions of interinstitutional systems and embedded agency suggested by ILP will be helpful in achieving the aims of this study. In contrast to NIS, which focuses more on homogeneity and isomorphism (DiMaggio and Powell, 1983), ILP focuses on heterogeneity and practice variation (Thornton and Ocasio, 2008). ILP conceptualises

society as an interinstitutional system comprised of competing institutional orders and their logics. This conceptualisation is useful in explaining heterogeneity which affects the adoption and non-adoption of organisational practices (Lounsbury, 2008; Ansari, Fiss and Zajac, 2010). These institutional logics enable and constrain organisational and individual actions. Because organisations and individuals are embedded in multiple institutional rationalities, their behaviour and decisions are affected by prevailing institutional logics (Thornton et al., 2012). This study argues that the prevailing institutional logics influence the behaviour, practices and motivations of listed firms and other stakeholders toward the introduction of CG and AC. This is because it is assumed that practices and decisions are also shaped and influenced by institutional logics (Greenwood et al., 2010).

As such, the ILP helps to explain the reasons behind the delay in issuing regulations/codes for ACs before the release of the mandatory code in 2013. In the absence of regulatory forces, it is believed that institutional logics might be the motivation behind the (non) adoption of ACs. Greenwood et al. (2010: 522) stated that "practices are indeed shaped by logics." This is because logics direct decision makers' attention to certain sets of problems and solutions (Shipilov et al., 2010) and subsequently affect firms' decisions regarding whether or not to adopt particular practices (Ocasio, 1997). For instance, some studies (e. g. Lounsbury, 2007; Marquis and Lounsbury, 2007; Shipilov et al., 2010) suggested that adopting a certain practice can be influenced by how this practice relates to prevailing institutional logics. There are many examples of these studies in executive compensation and succession (Thornton and Ocasio, 1999; Zajac and Westphal, 2004), organisational forms (Haveman and Rao 1997), career structures (Stovel and Savage 2006), board reforms

(Shipilov, et al., 2010), social responsibility (Lounsbury 2007), and corporate structure (Thornton, 2002; Greenwood and Suddaby, 2006). Although these studies have linked institutional logics to a wide range of organisational practices, to the best of my knowledge, there is no study that has links institutional logics and AC.

The assumptions of the interinstitutional systems and embedded agency of ILP are also useful in analysing how listed firms experience and respond to the introduction of CGC and AC. The core assumption of the interinstitutional system is that any context is comprised of multiple and conflicting institutional orders. In this study, the CMA, which is expected to be influenced by the state logic, introduced new institutional demands (CGC) which might or might not be compatible with institutional arrangements or institutional orders at play. Put differently, listed firms' experiences and responses to CGC are unlikely to be similar. In other words, this study believes that firms might perceive the introduction of CGC differently. This is because not all listed firms are embedded with and guided by the same institutional logics, and each logic differentially shapes how rationality is perceived. Moreover, institutional logics focus the attention of decision makers on issues and solutions that are consistent with prevailing logics (Ocasio, 1997; Shipilov et al., 2010; Thornton and Ocasio 2008; Thornton and Ocasio, 1999). Therefore, ILP, unlike neo-institutional theory, helps to understand and explain the heterogeneity and variations in organisational responses to institutional complexity. ILP is not only useful in explaining why organisational practices emerge but also emphasises contradictions which lead to resistance and decoupling (Thornton et al., 2012). In sum, this study believes that institutional logics influence the attitudes and behaviours of regulators and listed firms (based on embedded institutional logics) towards the introduction of AC and CGC. Thus, it is

believed that the core assumptions of interinstitutional systems and embedded agency suggested by ILP are suitable for achieving the aims of this study.

4.5 Conclusion

This chapter reviewed and explained the dominant theories in CG and ACs. It was demonstrated that agency theory and institutional theory are not adequate for the purpose of the current study as they do not take the social context into account. This chapter then introduced the Institutional Logics Perspective (ILP) as an alternative theoretical framework to analyse and interpret the findings of this study. It was highlighted how the ILP is able to explain the heterogeneity in organisational perception of institutional complexity.

Chapter Five: Research Methodology and Methods

5.1 Introduction

This chapter discusses the methodology and methods used in this study to achieve its aims. This study aims to explore and investigate the implementation of CGC and the introduction of ACs in the State of Kuwait. The next section will discuss the paradigm and philosophical assumptions adopted in this study and highlight why other alternative main approaches in accounting research are not suitable. Following that, the data collection method employed in this study will be described. This section will also provide details of the interview guide, pilot study, interviewee selection and access, and interview plan and process. Before the conclusion, the data analysis procedures are explained.

5.2 Research paradigm

The most essential aspect for any academic study is the philosophical assumptions (paradigm) of the nature of the world and the way in which it can be investigated. Collis and Hussey (2013) state that the research paradigm is the essential part of any study and they define it as a philosophical framework that guides the researcher into how the study should be accomplished, based on the researchers' philosophies and their assumptions regarding the world and nature of knowledge. The researcher must identity their philosophical view of the world because this choice greatly reflects not only the necessities and nature of the study to be delivered but also the investigators' view of the social world (Pansiri, 2009). Burrell and Morgan (1979) noted that to be placed in certain paradigms is to see the world in certain ways. Bryman (2012) stated that a

paradigm refers to how research should be done and how the results of the research should be interpreted.

The three main research paradigms employed in business and management research are positivism, interpretivism and critical theory. Each paradigm has its own underlying philosophical assumptions about the nature of reality (ontological) and the nature of knowledge (epistemological). Moreover, the methods of data collection that are applied to answer research questions depend on the research paradigm (Collis and Hussey, 2013). After considering the unique philosophical assumptions underlying each of these paradigms, the researcher believes that the interpretive paradigm is the most suitable to achieve the purpose of this study.

The fundamental assumption of interpretivism, often associated with qualitative studies, is that social reality is subjective and socially constructed by social actors and people's perceptions of it. Further, according to interpretivism, reality varies from one person to another (Guba and Lincoln, 1994) and as it is individually constructed. In other words, there are as many realities as human actors. Hence, interpretivism believes that transactions, regulations, events, and situations are meaningless, but meaning is ascribed to them by individuals. Interpretivism is based on the assumption that actions are bound by beliefs (Bevir and Rhodes, 2005). The interpretive paradigm builds on the philosophical exploration of meaning in action and the holistic nature of meanings (*Ibid*). The meaning in action means that actions can only be grasped by examining the beliefs embodied in them. The holistic nature of meanings implies that beliefs should be appropriately grasped only as part of the wider webs of which they are part. Put differently, interpretivism suggests that actions and practices can be understood by

recovering the beliefs that produced them. Interpretivists believe that people in any given situation can interpret that situation and their interests in many ways because of their different experiences and beliefs (*Ibid*). In other words, interpretivists argue that knowledge is a creation of human cognition and action; thus, they assume that knowledge may change as the traditions, experiences and beliefs of people change. In this sense, different people with distinct traditions, beliefs and experiences will construct meaning in various ways (Crotty, 1998). For this reason, interpretivist studies are less concerned about generalisation. In addition, interpretivist researchers believe that the social world is too complicated, and it is not possible to understand it just by identifying causal association between variables and testing these associations empirically (Hallebone and Priest, 2008). Therefore, interpretive methodology is aimed at understanding social phenomena from an individuals' standpoint.

The interpretive paradigm suits the objectives of this research for a number of reasons. First, the research objectives require subjective interpretation assuming that the world would appear to be different to everybody. The ontological assumption of the interpretive approach is that reality is constructed by social actors and people's perceptions of it and there are multiple realities Put differently, interpretivism believes that each person has a different perspective of the world and it is crucial for the researcher to understand the similarities and dissimilarities between people resulting from the various roles they perform as social actors (Saunders et al., 2016). This is in the same vein as the research aims because the current study is interested in exploring and understanding the experience and perceptions of the interviewees regarding the introduction of CGC and ACs in Kuwaiti listed firms because these interviewees might

perceive it differently based on their varying experiences and beliefs. Furthermore, firms might experience the introduction of CGC and AC differently because these firms are guided and motivated by different rationalities and beliefs. Additionally, this study is concerned with the rationalities that explain the (non)formation of having voluntary AC. Thus, different companies might perceive the importance of AC differently based on institutional logics. Macdonald et al. (2000) state that the interpretive paradigm is suitable when trying to identify the particular sequence and importance of a particular social phenomenon. Enquiries suitable for interpretive studies permit researchers to tie interviewees' meanings and activities in a place and time of concern in ways that may lead to insightful clarifications of events.

Another reason to choose the interpretive paradigm is that it is consistent with theoretical approaches applied in this study. The ILP assumes that the social actor's actions are enabled and constrained by institutional logics (Thornton et al., 2012; Thornton and Ocasio, 2008). Thornton and Ocasio (1999: 804) defined institutional logics as "the socially constructed, historical patterns of material practices, assumptions, values, beliefs and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality." Furthermore, the ILP attempts to explain not only the homogeneity but also heterogeneity of organisations and individual behaviours and practices. It assumes that individuals or organisations behave and act differently based on the prevailing institutional logics, which is consistent with the philosophical assumptions of interpretivism. Easterby-Smith et al. (2012) state that interpretive paradigm researchers may attempt to explain why individuals have various experiences or thoughts instead

of looking for external cause and effect relationships to explain individual behaviour. As for the studies of institutional logics, particularly institutional complexity and organisational response, a number of studies (e.g. Reay and Hinings, 2009; Bertels and Lawrence, 2016; Battilana and Dorado, 2010; Rautiainen and Järvenpää, 2012; Pache and Santos, 2013) have used the qualitative approach.

The researcher believes that the philosophical assumptions that constitute the positivist approach are not suitable for achieving the aims of this study. The fundamental assumptions of the philosophy behind the positivist paradigm are that social reality is objective and external to the researcher. Thus, there is only one true reality, and everyone has the same sense of reality. Furthermore, positivists believe that a phenomenon can be considered valid knowledge only if it is measurable and observable. Since the positivist approach holds the view that social phenomena are measurable, it is associated with quantitative data collection methods (Collis and Hussey, 2013). Put simply, positivism as a paradigm derives its philosophical credence from naturalism – the thesis that the social world has the same systems of rules as objects in the natural world and, hence, can be studied with the same approaches (Bhaskar, 2013). Saunders et al. (2016) state that positivists tend to conduct research through the approach of 'natural science.' Accordingly, positivism simulates the logic, processes and practices of the natural sciences to study social phenomena and obtain acceptable knowledge. Additionally, positivism assumes that the investigator is isolated and independent from what is being studied, and that the results of the study are value-free and unbiased. In this case, positivism disregards the role of the research interviewees and the researcher. This is another reason why the researcher deems that

positivism is not suitable for this study since the study aims to understand the experiences and perceptions of interviewees about the introduction of AC and CGC in the Kuwaiti listed firms.

Under this paradigm the investigator seeks predictions and generalisations by finding a cause-and-effect relationship and employs a static design whereby classifications are recognised in advance (Collis and Hussey, 2013). Positivistic generalisations disregard the intentionality of the human; therefore, actions are not completely understood (Scotland, 2012). The aim of this study is not to test hypotheses or find a cause-and-effect relationship between the variables using empirical data. Furthermore, reducing the complicated social phenomena to the simple by identifying and controlling variables might lead to preventing the provision of comprehensive understanding of the topic. Also, it is difficult to quantify some data relating to individuals' experience and perceptions. Moreover, the aim of this study is not to predict what happens in the social world or seek to issue a generalisable law. Another reason why the researcher believes that the positivistic paradigm is not suitable for this study is that the latter aims to understand the complexity that faces listed firms after the introduction of CGC, whereas the positivist paradigm, Saunders et al. (2016) argue, is not appropriate for the complexity of the social world of management and business.

Another approach adopted in accounting studies is the critical paradigm. The assumptions underpinning the critical paradigm is historical realism. Guba and Lincon (1994:110) stated that "a reality is assumed to be apprehendable that was once plastic, but that was, over time, shaped by a congeries of social, political, cultural, economic,

ethnic, and gender factors, and then crystallized (reified) into a series of structures that are now (inappropriately) taken as real, that is, natural and immutable." In other words, reality is socially constructed and objectively real (Chua, 1986).

Critical studies focus on questioning assumptions and values, exposing injustice and hegemony, challenging traditional social arrangements and engaging in social action (Crotty, 1998). Thus, inquiry under the critical paradigm is inseparable from politics and aims to tackle social issues such as fairness and marginalism and to emancipate the disempowered (Scotland, 2012). Critical researchers do not only aim to provide interpretations but also to affect the social actors' cognition to attain and promote emancipation. Accounting studies that have adopted critical points of view have a political imperative and purpose to give social criticism and encourage radical change (Roslender, 2006). This study is not considered as critical research because its aim is neither to make or promote radical change nor adopt the emancipation concept of the critical approach. The nature of this study is exploratory, and it seeks further understanding of the CGC and AC, as shown in the introduction of this chapter.

5.3 Data collection

Hussey and Hussey (1997) state that there are two types of data collection: primary and secondary. It has been suggested that the choice of methodology is determined by three aspects: the research questions, the ability to obtain the data required, and the choice of what the researcher wants to establish (Smith, 2017). To achieve the purpose of this study, the primary data is obtained through semi-structured interviews. Further, some secondary data (e.g. newspapers, firms and organisations' websites,

financial reports, articles, CGCs (first and second versions), and KSE establishment law) are used as well.

5.3.1 Research method

Survey questionnaires and interviews are the two main research techniques for gathering primary data used in interpretivist (qualitative) research. Smith (2017) argues that the optimal choice of methodology will differ from one study to another but if the intention is to reveal opinions, thoughts or facts, then interviews and surveys are likely to be the most appropriate approaches. In order to achieve the purpose of this study, interviews are believed to offer the most appropriate method. This is because questionnaires might fail to record the true feelings or beliefs of the interviewees due to a lack of clarity in the questions or the availability of multiple answers in the survey (Collis and Hussey, 2013). Furthermore, Robson (2002) states that questionnaires have shown a lack of effectiveness in research that involves in-depth investigation and probing. In contrast, interviews are effective in exploring the perceptions and beliefs of people expressed in their own language (Easterby-Smith et al., 2012). Furthermore, because the research questions are complex and the interviewees might need more space to explain and discuss the topic, interviews are preferable to a questionnaire. According to Reinharz and Davidman (1992), the interview method provides the researcher with insight into the interviewees' thoughts, memories and ideas, which are expressed in their own words instead of those of the researcher. Moreover, interview approaches have been used in many research studies of institutional logics and their impact on individuals, organisations and markets (e.g. Lounsbury, 2007; Greenwood and Suddaby, 2006).

There are three types of interviews: structured, semi-structured, and unstructured interviews (Smith, 2017). In order to achieve the purpose of this study, semi-structured interviews are believed to offer the most appropriate method because they are more flexible and provide more in-depth information. The researcher opted for conducting semi-structured interviews rather than structured interviews because the latter have the same weaknesses as the questionnaire. For instance, the questions in a structured interview are closed-ended, and the sequence in which they are asked is the same as in all interviews. Furthermore, structured interviews lack the flexibility required to collect data according to the interviewees' responses, and the researcher is often unable to probe any interesting points that might arise during the interview. Unlike structured interviews, unstructured interviews do not follow a certain set of questions and sequences. The unstructured interview is considered to be the most flexible type of interview. Yet, this type requires a considerable amount of time to gather the desired information and a great deal of effort in order to analyse the data collected, and it is very difficult to make comparisons of the respondents' answers since each interviewee might be asked different questions. Further, the unstructured interview might lose focus on the research aims because the interviewee may diverge from the subject matter. For all these reasons above, the unstructured interviews are not chosen.

A semi-structured interview is more flexible than the structured interview and less flexible than the unstructured interview. It allows the researcher to probe any interesting points that might arise during the interview. According to Hussey and Hussey (1997), in general, the semi-structured interview method has several advantages such as "permitting the researcher to ask more complex questions as well as follow-up questions, which is not possible in a questionnaire.... [I]t permits a higher degree of

confidence in the replies than questionnaire responses and can take account of non-verbal communication such as the attitude and behaviour of the interviewee" (p. 158). Furthermore, Walliman (2005) states that semi-structured interviews offer a flexible method with a wide range of uses.

5.3.2 Interview guide

Before starting the data collection process, an interview guide was formed. This process is considered as one of the most important elements because the interview guide is the actual tool that the researcher uses to obtain information from the interviewees. Therefore, the better and more comprehensive the guide is for the interview, the richer and more insightful the information that will be obtained.

The interview guide was divided into four sections. These sections were further divided based on research questions/aims. The first section aimed to give a general introduction about the research aims and obtain demographic information about the interviewees[8]. Further, this section also aimed to gain the confidence of the interviewees by asking general questions about the topic. The second section asked questions related to the first and second objectives of the study, which are "the motivations behind the (non)formations of voluntary AC" and "the reasons behind the delay of issuing codes or regulations regarding AC in Kuwait". The focus of the third section was on understanding how the listed firms perceive, experience and respond to the introduction of CGC (the third research question). The purpose of the last section was to find out

[8] For confidentiality of the interviewees, the demographic information was not provided in this research.

about the perceptions of the interviewees about to the effectiveness of the mandatory AC after the introduction of CGC.

It is very crucial to mention that some of the questions were informed by KCCI's statement and the variations between the old and replaced CGC. For instance, the regulators were asked why they have removed one of the roles of AC. Also, existing literatures were useful in probing the questions to gain more in-depth information from the interviewees. The interview questions were almost the same for all the interviewees with little modifications to make them more relevant to a particular group. Some groups were asked more questions that were relevant to their work. For instance, internal and external auditors were asked to what extent the existence of AC affects their work. The board members were also asked why they had (not) formed a voluntary AC before the issuance of the CGC. All the interview questions were written in English in order to discuss them with research experts and after that they were translated in Arabic. In order to make sure of the quality of the interview guide, a pilot study was conducted before the actual data collection took place. The next section details the pilot study.

5.3.3 Pilot study

Pilot interviews are crucial to achieve the aims of a study. Gill et al. (2008) state that pilot interviews allow researchers to ensure that the guide is understandable, clear and capable of answering the study enquiries and determining if any modifications to the interview guide are necessary.

Therefore, pilot interviews were conducted with two interviewees in September 2016. In order to get the best out of this pilot study, the interviewees were selected carefully

using a number of criteria such as knowledge, position, experience and ease of access. One of the interviewees had previously been an ex-market committee member in the KSE and was an independent board member for two listed firms and an AC member at the time of the interview. The first interviewee held a Master's degree in business and administration. The second interviewee also had two roles. He was a senior accounting academic, held a CPA and was an independent board member. These interviews were conducted face-to-face and in Arabic. One of the interviews was recorded, whereas in the second the note-taking technique was used during the interview. The main reason for using the second technique was to become familiar with it in case some interviewees refused to have the interview recorded.

A number of goals were meant to be achieved from this pilot study. The first (as mentioned above in the previous section) was to ensure the adequacy of the interview guide to achieve the aims of study and answer the research questions. Furthermore, the interviews in the pilot study were useful in the process of selecting the interviewees for the study (such as KCCI) and gaining more insight about the prevailing institutional logics in the fields and conflict between the main players.

Most importantly, the pilot study was useful for evaluating the research aims and questions. For instance, one of the research questions was to establish the difficulties faced by listed firms when complying with an AC. This research question was replaced with another: "to what extent do the interviewees believe that the AC will be effective?' This is because the researcher found out that the interviewees in the pilot interviews believed that the requirements in the code relating to forming an AC were easy and simple to achieve. Moreover, it was originally planned that this thesis would cover only

the response toward the introduction of mandatory AC. After the pilot study, however, the researcher started to think about the responses towards the introduction of CGC. This is because the CGC was then a controversial subject about which much discussion had taken place in academia, newspapers, international and local TV channels, among investors and investment analysts. Furthermore, when the interviewees in this pilot study were asked what they thought about the response of the listed firms toward the AC, the interviewees' responses were mostly in relation to CGC. In addition, the interviewees located the discussion of the AC within the context of CG and thus their views on AC could not be isolated. Most importantly, the ex-market committee member mentioned during the pilot interview study that the KCCI for the first time in their history issued a statement criticising the CGC and CMA. For this reason, I was more open to consider the complexity of the introduction of the CGC as one of the research objectives but the decision in favour of introducing the CGC was made during and after the data collection. The final aim of this pilot study was to ensure the suitability of the ILP as a theoretical framework.

5.3.4 Interviewee selection and access

To obtain insightful and rich information, the interviewees had to be selected properly and strategically. Therefore, it was crucial to identify the target interviewees that would provide rich information about the topic of this study. This technique is called purposive or judgment sampling and is defined as the researcher relying on their own beliefs when selecting interviewees (Saunders et al., 2016). A number of techniques were used to identify the best interviewees. The first step was to identify the relevant and interested individuals and organisations that were involved with and related to the study topic. Examples of these included the regulators (CMA and Market Committee), board and

AC members (independent and non-independent), external and internal auditors, investment analysts (portfolio managers), academics, professional bodies (KAAA) and finally the KCCI. The interviewees were then chosen based on their experiences, knowledge and position. The researcher selected interviewees with more than one role wherever possible because this type of interviewee was thought to have more experience and knowledge which, in turn, would increase the richness of the information generated. Also, this study utilised a snowballing method to identify the interviewees. Robinson (2014) stated that this method involves interviewees being asked to recommend or suggest someone who is qualified to be interviewed. This technique is also used to gain access to interviewees. However, most interviewees were contacted based on the researcher's personal relationships and networks. A target number of interviews to be conducted were not agreed at the outset. Rather, it was decided that interviews would continue to be arranged until the theme became apparent and the interviewees were consistently repeating opinions that had already been expressed.

5.3.5 Interview plan and process

Before starting to collect data, ethical approval and consent forms were obtained from the University of Essex (a copy of consent form is provided in Appendix B). In December 2016, the researcher travelled to the State of Kuwait to begin the data collection process. Saunders et al. (2016: 401) emphasise the need for planning and state that "prior planning prevents poor performance." Thus, to gain more insightful and in-depth information from the interviewees, a plan was designed. This plan was first to group the interviewees in a number of pools based on their positions and roles (academics, regulators, board members, external and internal auditors, professional

bodies, investors and KCCI). Then the data collection period was divided into three stages. In each stage, a member from each group was interviewed.

The reason for this was that the CGC and AC were new topics that had only recently been introduced in Kuwait. Therefore, it was thought that some interviewees from a certain group (e.g. board members) might raise a critical point against another type of targeted group (e.g. regulators). So, each group had the opportunity to raise questions and respond to other critics which, in turn, would provide more in-depth information and reinforce the argument of this study. In essence, the aim here was to build more heterogeneity into the argument and sample. In addition, the plan was to initially conduct a small number of interviews in the first stage and then increase gradually in the following stages. This was to review the interview guide and research questions and also to ensure that the theoretical framework was suitable. Furthermore, this stage was useful to evaluating and improving my skills during the interviews. This was particularly useful to identify when the researcher could have replied to answers and probed the replies.

In total, 25 interviews and two pilot interviews were conducted (see Appendix C for the list of interviewees). Most of them were recorded by two devices (an audio recorder and an iPhone) to ensure the clearness of the voice and in case one of them were to break down. Four interviewees refused to have their interviews recorded but agreed that notes could be taken. Saunders et al. (2016) stated that the location of the interview might influence the data and it should be convenient for the interviewees and should not be a noisy place. Therefore, the interviews took place in different places based on the interviewee's preferences (e.g. their offices, farm, houses or coffee shop). The

shortest interview was 30 minutes, while the longest was 135 minutes. All of them were contacted by mobile phone but one was invited to participate in the study via Twitter.

The first stage consisted of five interviews (with an academic, board member, AC member and portfolio manager). The researcher was cautious about selecting the interviewees at this stage. This was because the researcher might need to clarify certain aspects about a particular topic, or something new might emerge, such as a research objective. Or it may be necessary to conduct the interview again.

The interviewees were contacted by telephone to arrange a time and place for the interviews and also to explain to them the purpose of the study. Before starting the interview, I explained to them that their names and identities would remain confidential and anonymous because disclosing their personal identities would break the ethical code of conduct of the University of Essex. Then the interviewees were given the option of either continuing or withdrawing from the interview. After that, the interviewees were handed the consent forms to sign. Then the interviewees were asked for permission to record the interview. Each interview started with a general question, such as demographic information about the interviewee. Then the interview continued with general questions about the topic to gain the interviewees' confidence and trust and develop a friendlier atmosphere. It was noted that in many cases the interviewees were nervous and cautious at the beginning of the interview. With the passage of time, however, they became more confident and spoke with more freedom. Therefore, the interviewees were not interrupted at the beginning of the interview and sensitive questions were not asked initially.

All the interviews were conducted in Arabic because it is the mother tongue of all the interviewees in this study and some of them did not speak English very well. Thus, to ensure that they could express their opinions, perceptions and experiences in a clear language, it was conducted in Arabic. During the interview, the researcher took notes and it was very crucial and helpful to decide about the follow-up questions. Once the interviews finished in the first stage, the researcher re-listened and transcribed them carefully. The relevant sections of each interview were translated to English by the researcher. To ensure the accuracy and correctness of the translation and avoid any chance of bias during translation, it was checked and reviewed by an expert translator in Arabic and English.

The point here to be decided, as mentioned in the pilot study section, was whether to consider the response to CGC in general or just the AC. After finishing the first stage, the decision became easier to make, and the researcher decided to cover the complexity that faced listed firms after the introduction of the CGC. As a result, the interview guide was modified to concentrate on how listed firms and any interested parties (KCCI) experienced, perceived and responded to the introduction of the CGC (see Appendix D for the interview guide).

In the second stage, the rest of the interviewees were interviewed. It is important to mention here that one of the regulators (CMA regulator) was interviewed in two sessions. It was planned to hold only one session, but the interviewee requested that it be stopped and postponed to a later date as she had to go to a meeting. The first session lasted for 55 minutes. This postponement was very beneficial for three reasons. First, this interviewee was particularly crucial for the study because they were one of the team

who participated in the formation of the CGC and were knowledgeable about the process of formation and conflict with listed firms and the KCCI. Secondly, because the first interview was almost complete, and the perception of the regulator had been obtained, this provided an opportunity and the time required to listen to the interview and think more about what questions and themes should be concentrated on in the second session. Thirdly, it gave time to have opinions and criticisms raised by other interviewees towards the CMA and CGC. The second session took place on the very last day of the data collection period. The second session lasted for 83 minutes.

The last stage was the follow-up interviews with four interviews from the previous stages. These four follow-up interviews were conducted with the aim of clarifying certain points that the interviewees mentioned or clarifying and focusing on specific aspects that had arisen in other interviews. These follow-up interviews were conducted by mobile phone.

5.4 Data analysis

The aim of data analysis is to interpret the data and make inferences and conclusions with the aim of answering the research aims (Tashakkori and Teddlie, 1998). Data analysis occurs concurrently with data collection (Green et al., 2007). As mentioned earlier, the transcripts were made immediately after the interviews. Furthermore, a number of comments were taken after each interview including summaries of the main points alongside notes taken during the interviews. This was useful because the researcher still had a sense of the interview while it was fresh in the mind. After that, the researcher listened to recordings of the interviews, read the transcripts and compared the notes and summaries in case any notes or points had been forgotten. This

process was beneficial in many ways. It focused the researcher's attention on the interviews and, most importantly, early reviews made the analysis more manageable than when handling large amounts of data (Green et al., 2007). It is very important to mention that all of the interview data were analysed manually. This is because phrase expressions and vocabularies can frequently signify various cultural categories based on the topic in which they are stated. Electronic approaches cannot completely recognise these matters.

After the transcription of the interviews, the data was organized. The first step in this process was to make the data manageable and to reduce its complexity. In other words, the researcher was involved in data reduction (Miles and Huberman, 1994). This was achieved by reading the interview transcripts carefully and categorising them into manageable components by linking the transcript excerpts for each interviewee's responses to each research question.

This study used thematical analysis, which is one of the main qualitative study analysis methods. A theme can be defined as "a category identified through the data that is related to the research focus, that builds on codes identified in transcripts, and that provides the researchers with the basis for a theoretical understanding of the data that can make a theoretical contribution to the literature" (Bryman, 2012: 580).

Therefore, I started to find themes, patterns as well as similarities and differences. Because this study uses the ILP as the theoretical framework, the intention in this step was to identify the themes as a way of finding the main institutional logics in the study. Broadly speaking, I found a number of themes and patterns that influenced the

behaviour of listed firms and regulators regarding the introduction of AC and CGC. For instance, some of the themes included firm size, cost, firm activities, government, rating agencies, family interests and members, state interests, shareholder interests, the lack of state interest, conflict of interest, influential people, firm reputations, creditors, credibility, transparency performance, procedures and policies, friends and nepotism. After that, I started to link the identified themes with the institutional logics (market, state, corporation, profession, religion, family, community logics). In order to achieve this step, I used the ideal type suggested by Thornton et al. (2012) as well as other empirical studies (e.g. Miller et al., 2011; Reay et al. 2015; Jaskiewicz et al., 2016). I found many themes that were able to be linked to particular logics. The main themes found were related to market, family, state, corporate, and professional logics that guide the decisions and actions of regulators and listed firms.

It is important to mention that in this stage there was some subjectivity in placing the themes under each logic. This was especially the case when the researcher tried to differentiate between the market and corporate logics because corporate logic supplements market logic in terms of economic perspective (Thornton, 2002). One of the ways to tackle this dilemma was to read the theoretical literature and consider the elemental categories for each logic in the ideal type that was suggested by Thornton et al. (2012). Another dilemma was the placing of friendship under a logic. In the first step, I tried to use the ideal type and the prior theoretical literature to resolve this issue but this did not make the decision clear. After much thought, I decided to treat friendship in the same way as family logic. This decision was made after a careful reading of the transcript, where I found that the interviewees considered their friends to be similar to family members. Furthermore, it is worth mentioning that the religion

logic was expected to be a strong theme since researchers (e.g. Thornton et al., 2012; Friedland and Alford, 1991) had stated that the family and religion logics prevail in traditional societies. However, the findings of this study showed that the religion logic exerts no influence.

Finally, the relevant secondary data were also used and placed under the relevant themes. The use of secondary data and document evidence was intended to challenge or support the findings of the interviews. Furthermore, the secondary data were very crucial in identifying the timeline events of the firms and KCCI responses.

5.5 Criticisms of the interpretivist approach

It is argued that qualitative studies have limitations in terms of validating and ensuring reliability. In order to tackle these limitations, a number of steps were taken. Regarding reliability, Lincoln and Guba (1985) stated that reliability is the essential requirement for validity. Yin (2014) recommended that one way to increase reliability is through the transparency of the study process. In other words, the more details provided about the study process, the more reliable the study is. As such, in this chapter, I tried to provide much detail about the process applied to demonstrate how this study was conducted.

Regarding validity, qualitative research uses the term 'credibility' as a parallel to internal validity, and transferability to generalisability or external validity. Generalisability refers to "the degree to which the findings can be generalied from the study sample to the entire population" (Polit and Hungler, 1991, p.645). Transferability

is related to whether the findings of the qualitative study can be extended or transferred to another context or setting (Trochim, 2006). To address the issue regarding validity or credibility, this study employed semi-structured interviews and some other secondary data as sources of data to enhance the validity of the results obtained (Bryman and Bell, 2015).

5.6 Conclusion

This chapter presented and discussed the research paradigm followed in this study, the research methods and data sources used, and the data analysis technique and process employed. It explained and described the use of the interpretivist paradigm and the justification behind this. It also justified the use of semi-structured interviews and document analysis as research methods as well as other secondary data. Finally, it described the process and approach used to analyse the data.

Chapter Six: Introduction of Audit Committees in Kuwait

6.1 Introduction

The purpose of this chapter is to discuss the findings of the interviews related to the introduction of ACs in Kuwait. This chapter will attempt to answer two of the research questions. The first question is, what were the reasons for the delay in issuing regulations, codes, or recommendations for ACs before the release of the CGC in 2013? The second question is, in the pure voluntary environment of Kuwait, what are the forces that explain why some firms voluntarily formed an AC while others did not? In order to provide greater insight into the findings, an institutional logics theory perspective will be used to interpret the findings.

This chapter is divided into three main sections. The next section provides the findings and discussion relating to the first research question. The second section starts with a brief discussion of the ILP and the second research question. After that, there are four subsections (state logic, market logic, corporate logic and family logic) that help to explain why some firms voluntarily formed an AC whereas others did not. The last section provides a discussion and conclusion for this chapter.

6.2 Reasons for the delay in requiring ACs

Around the world, state and government agencies play a crucial role in imposing CGCs. State logic is associated with the idea that the political and economic interests of the state should be given priority. This logic is concerned with meeting the expectations of the government and governmental organisations, conforming with state regulations, protecting state assets and accomplishing state objectives (Dai et al., 2017). However, state logic had only a limited effect on the introduction of the AC in Kuwait in the era

before the foundation of the CMA. The introduction of many regulations or codes on ACs, in many countries, was often a response to financial crises or accounting scandals. For example, many researchers in the US (e.g. Collier, 1996; Fichtner, 2010; Birkett, 1986) noted that ACs were formed after the fraud of McKesson & Robbins Inc. in the late 1930s. The Asian financial crisis of the late 1990s also had a significant influence on the introduction of ACs in some Asian countries including Indonesia (Rochmah and Ghazali, 2012), Thailand and Korea (Tengamnuay, 2005). In Kuwait, the economy also suffered from financial crises and scandals in the 1980s (e.g. Al Manakh crisis), but no regulations or recommendations were issued. The interviewees were asked why there had been a delay in implementing regulations or recommendations relating to ACs. The interviewees believed that there were four main reasons: the regulatory environment, the state's lack of interest, the conflict of interest between the regulator and the regulated, and the culture and mentality of regulators in Kuwait. The next four subsections discuss these reasons in greater depth.

6.2.1 The regulatory environment and regulators' lack of knowledge and qualifications

Many interviewees in this study strongly blamed the state for the lack of concern relating to ACs in Kuwait. For example, an accounting academic and independent company board member cast the blame on the regulatory bodies for the delay in introducing ACs and educating firms about their importance:

> *"I honestly don't blame the companies for not forming ACs. I blame to a great extent the regulator, which may be the Ministry of Commerce and Industry or the stock market for not making it obligatory as well as not educating the companies about its [AC's] importance" (ACCM).*

One of the most crucial reasons raised by most of the interviewees was the regulatory environment in Kuwait. This is because there were many bodies that regulated the securities markets in Kuwait before the foundation of the CMA. These bodies were the Ministry of Commerce and Industry, the Central Bank of Kuwait, and the Market Committee in the KSE. Thus, there was some confusion over which of these three bodies should be in charge of issuing the regulations and directives. One of the board members of a company attributed the reason to the absence of a clear regulatory body. The accounting academic also stated the following:

> *"We have had a problem with regulating the KSE, whereby more than one authority oversees it. The Ministry of Commerce on the one hand… the KSE … the Central Bank has control over banks and investment companies. In fact, we had three bodies and these three bodies were not united; each worked in isolation. Strangely, these three bodies did not reach a decision regarding ACs" (ACCM).*

Some of the interviewees claimed that the regulators and government lacked the necessary knowledge and qualifications to introduce regulations relating to ACs. For instance, one of the former chairmen of the KAAA stated:

> *"The weakness of the regulatory bodies at that time... if we assume that there is a Ministry of Commerce as a body responsible for monitoring joint stock companies ... and the Market Committee in the stock market; with all due respect they were not of a sufficient standard for such things. They were not qualified enough" (KAAA1).*

From the perspectives of most of the interviewees in this study, the main reason for having unqualified officials in these positions is that the appointments are based on nepotism and cronyism. In essence, the interviewees believe that these positions are held and controlled by influential families in Kuwait (as will be discussed in more details in Section 6.2.4). These families use their political power to appoint fellow family members and friends to these positions, even though they are not suitably qualified for the roles. Most importantly, the interviewees believe that even ministers are appointed in this way. In this case, the appointed person might work to serve the interests of the people who appointed them to that position. For instance, two interviewees stated the following:

> *"Who appointed them in positions? Are they appointed according to their qualifications or their experiences? …Who are the Ministers of Trade? They are traders or their friends" (POR3*).
>
> *"Look at the owners of large companies, they hold all the influential positions in government" (EXT2).*

From an institutional logic perspective, people in these positions should prioritise the interests of the state and should be driven by state logic. However, instead, they are driven by family logic, either because they are a member of these families or because they are their friends, which leads them to prioritise the families' interests over the state's interests. In this sense for them, the less regulation or legislation, the better.

On the other hand, other interviewees hold that the executive managers who were in the KSE had very good qualifications, knowledge and experience. One of the

interviewees emphasised that the members in the Market Committee are aware of ACs. The interviewee stated that one of these members had dealings with the London stock market. The academic added that it could be accepted that the regulation in this matter was delayed but it was delayed for far too long and this raises a lot of questions:

> *"I am wondering why it was not introduced, even though those who ran these bodies were familiar with other financial markets. I know that, for example, one of the managers of the KSE was also involved in the stock markets in Britain. I am surprised that it was delayed for so long. I accepted that it was delayed but this was too much" (ACCM).*

Based on his recommendation, an interview was conducted with a former chairman of the Market Committee to gauge his perceptions and clarify why they had not introduced regulations or recommendations connected to ACs. In the interview, this member showed that he had good knowledge and was aware of the importance of AC. Moreover, the interviewee had been an AC member in the late 1980s. With regards to legislating for ACs, the interviewee explained why the Market Committee had not introduced legislation for AC:

> *"I am telling you about a subject that is bigger and more dangerous than the AC: if one manipulates the market and is proven to be a manipulator... before 2013, what could you do to him? There was no penalty, no written regulations… so there was no punishment without written regulation... The Market Committee cannot afford to for one simple reason: [the AC] may be among the listing requirements ...but if they don't comply with it, what could you do to the companies? What is the penalty? .... I might legislate but the legislation is hollow without claws. In cases of*

disobedience or refusal to obey, what can you do? Nothing! We can say that the reason was the absence of law and the absence of legislation" (REG2).

The interviewee revealed that the Market Committee could not introduce rules regarding the stock market because of its legal status. In Kuwait, a body must have the appropriate legal status to issue a law. This law is considered to be the legal basis that defines the responsibilities and powers of the authority in terms of legislation and penalties. The interviewee implies that the establishment of the law of the Market Committee provided them with no power to issue either legislation or penalties. In other words, they might legislate/regulate for ACs, but this would not have any legal basis. Thus, when firms do not comply with this requirement, they have no power to punish them. Consequently, they preferred not to issue legislation when they had no power to enforce it. From the ILP, this illustrates that state logic was weak at that time and market logic was stronger because the firms were not challenged by the state to behave in a particular way. Having said that, the Market Committee could issue a recommendation to establish an AC, just as the Securities Exchange Commission, the New York Stock Exchange (NYSE), and London Stock Exchange did, but instead they chose not to issue any such recommendations. However, this interviewee indicated that companies are unlikely to follow any recommendations when there is no consequence for failing to comply. In summary, the findings in this section have shown that the claim that regulatory bodies lack awareness is one of the reasons that might not be persuasive because the board members in the Market Committee were aware of the importance of ACs. Also, the interview with a former chairman of the Market Committee showed that he was an AC member in the 1980s. This interviewee had been a board member in the

Market Committee for a long time before he became the chairman of the committee, which is another piece of evidence against the argument that regulatory bodies were not aware of the importance of ACs in Kuwait.

6.2.2 The culture and mentality of regulators in Kuwait

Some of the interviewees in this study hold the view that the mentality of the Kuwaiti government and General Assembly is based on reaction rather than taking a proactive stance. Simply put, they claim that the government does not introduce regulations or laws to prevent crises; rather they wait until after a crisis before taking action. The following quotations are from the two AC and board members:

> *"Our state is not built on being proactive. Our decisions are based on solving problems when the problem occurs. We are not like the developed countries in legislative matters because the developed countries try to anticipate events before they occur" (AC1).*
>
> *"I think we have a problem in Kuwait that we are slow to develop market platforms. Even if we have one of the first stock markets in the region, we are late in the subject of the Capital Market Authority. We are late in these matters. Although many of these things are discussed in the National Assembly, the National Assembly may be late in determining its priorities. When a problem occurs, they issue you a law…as a reaction rather than a proactive step" (AC2).*

These interviewees give an indication of the mentality of the regulators in Kuwait. Contrary to the perception of these interviewees, it can be argued that Kuwait's economy has suffered from a number of crises (e.g. the Al-Manakh crisis) and the state

has not issued any regulation regarding CG and ACs. Moreover, the interviewee's responses show that they lacked awareness of how the ACs were introduced in other countries. In many countries, including developed and developing ones, the introduction of ACs was based on reactions not proactive arrangements (e.g. Tengamnuay, 2005: Rochmah and Ghazali, 2012; Collier, 1996; Fichtner, 2010; Birkett, 1986).

Furthermore, some of the interviewees believe that the financial crisis in 2008 revealed the inadequacies of CG in Kuwait. Before this crisis, investors and firms were happy because they operated profitably. This crisis changed people's mentality in their investment decisions:

> *"Look, we were late in general and our stock market was neglected. I do not think it was important for them. I mean things were running in a certain way... speculative activity dominated the KSE. Even the financial analysis of companies was very weak but people after the financial crisis changed in general in the way they viewed companies... and the way they invested in listed companies" (Port1).*

This interviewee argued that regulators neglected the regulation of stock market activities because shareholders were profiting from the market. However, the crisis revealed significant issues in many areas such as the recording of financial information. Furthermore, because regulators work on the basis of reaction, some interviewees believe that the financial crisis was the main reason for ACs becoming mandatory:

> *"I think the main reason was the 2008 crisis. The crisis of 2008 revealed the importance of CG and the importance of having effective committees. Many companies and investors were surprised that there were serious*

mistakes in the recording of assets and in the method of calculating depreciation. I think that if the crisis had not happened in 2008, we would not have seen the Capital Markets Authority respond in this way. The 2008 crisis, although there were movements for the foundation of the Capital Market Authority, accelerated the issue" (AC2).

Having said that, the government did not issue anything regarding these matters until 2013, which was a very long time after the crisis. Hence, this may not be a convincing explanation for the delay.

6.2.3 The state's lack of interest

Another reason suggested by the interviewees regarding why the government lacks interest in regulating the stock exchange is because the KSE only contributes about 5 percent of the total revenues of the country. Accordingly, the Kuwait government is less interested in imposing regulations in this area because they perceive it is unimportant in terms of its significance to the prosperity of Kuwait. Given the fact that the owners of listed firms and the KCCI have very strong political power, the state might prefer not to conflict with them by enacting regulations (this point is discussed further in the next chapter).

"I think the main reason is that the stock market was not a priority for the state and the government because this market does not contribute a significant proportion of national revenue. About 93% of state revenues are derived from oil, while only 5% come from financial activities such as banking, so the state has not paid this market considerable attention" (Big Audit Firm Partner, EXT1).

The fact that the stock market's contribution to the state's revenue is little is incongruent with the Kuwaiti state and rulers' desire to diversify state income source. It is also inconsistent with the desire of Kuwait's rulers to make the country the financial and economic centre in the region. As such, this reason is also not sufficient.

6.2.4 Conflict of interest between the regulators and the regulated

Many interviewees attribute the delay in issuing regulation, legislation or recommendations for the formation of AC to the conflict of interest between the regulators and regulatees (regulated parties). This is because the merchant classes who have large stakes in listed firms also hold senior positions in the regulatory bodies. Many interviewees believe that this group might have prevented any regulations in this regard. For instance, one of the chairmen of an AC believes that government corruption is one of the reasons for the delay in AC regulation. The following quotations are from various interviewees:

> *"What is more important is that the environment is a fairly corrupt one. These things help corruption; the owners of large companies are all influential, and the owners of companies are the decision makers and do not want this decision" (EXT2).*
>
> *"It's a lobby. There was a lobby group that did not want to create a CMA because they did not want a regulator to determine how they worked. They think they can do business in this way ... they do not want anyone to intervene. This is a problem" (EXT3).*

These interviewees consider that the conflict of interest between the regulators (the government bodies) and the regulatees (companies' owners) is the main reason behind the delay of issuing regulations. This is because the companies' owners occupy key decision-making positions in the country and thus might prevent any regulation that is against their interest. To name but a few, the chairman of the KCCI is the father of the president of the General Assembly. Furthermore, the vice president of the General Assembly was a board member of the KCCI. Additionally, two KCCI board members were members of the General Assembly. Similarly, the Minister of Finance was a board member of the KCCI.[9] The ex-president of the General Assembly Jassim al kharafi is a member of one of the richest families in the world. His son has also been a board member of the KCCI since 2008 and his father was also the vice-president of the KCCI. Furthermore, he was the Minister of Finance and Economy in the mid-1980s. It is common that the merchant families nominate their family members to Parliament to protect their interests. The reason behind this is that the Parliament is the highest legislative authority and members have the power to influence the Prime Minister and any ministers. Also, members have the power to issue a vote of no confidence in either the Prime Minister or any minister. Additionally, it is worth remembering that the Market Committee of KSE must comprise four members representing the KCCI. Thus, this group might attempt to prevent any regulation that could cost them financially or influence the way they are managing their companies. This is because they are the managers and owners at the same time.

Furthermore, historically speaking, there has been a non-written agreement since the establishment of Kuwait between the ruling family and the business families which

[9] He was also the Minister of Commerce and Industry, Minister of Oil.

stated that that the ruling family would rule the state while leaving the trade under the merchant families' control. This implies that the ruling family may have limited intervention in commerce and how the merchant families manage their businesses. By reviewing the history of the Trade and Industry Ministry, most of the ministers were from merchant families or were their close friends. This might be because the tacit agreement between the state and this group is still active.

From the ILP, these people are embedded in market and family logics and the basis of norms in this logic is self-interest. On the extreme opposite end of the spectrum, one of the core components of state logic is to increase the collective good and maintain social and political order. Thus, state bodies should impose regulations to ensure the collective good and maintain the economic state. However, influential people in governmental bodies and the Kuwait National Assembly appear to be more embedded in market logic than in state logic. Thus, they might have blocked any regulations that could adversely affect their interests. This is because the implementation of AC and the CGC might impose extra costs and alter how they manage their firms. In simple words, the regulatory bodies that should be motivated by state logic are dominated by market logic that is embedded in the people who hold the highest positions in these bodies.

6.3 Institutional logics for the (non) formation of a voluntary audit committee in Kuwait

As mentioned earlier in this chapter, before issuing the CGC, there were no recommendations, regulations or professional requirements to form ACs in Kuwait. However, a number of firms listed on the KSE had voluntarily formed an AC. According to Al-Shammari (2014), 42 (38.5%) of 109 non-financial companies listed

on the KSE in 2012 had voluntarily formed an AC. Another study conducted by Alanezi and Albuloushi (2011) found that of the 68 firms listed on the KSE in 2007, 29 (42.6%) had a voluntary AC. Both studies show the similarity between the percentage of firms that formed ACs in 2007 (42.6%) and the percentage in 2012 (38.5%).

This section reports the findings which explain why some firms formed ACs while others did not, through utilising the ILP as a tool for analysis. The ILP assumes institutional heterogeneity in the form of multiple institutional orders prevalent in any society. These institutional orders are mega institutions and are guided by distinct features which are known as institutional logics. The presence of multiple institutions and multiple logics represents the heterogeneous context in any society that can explain why certain practices are/are not adopted. Because organisations and individuals are embedded in multiple institutional-based rationalities, their behaviour and decisions are affected by prevailing institutional logics (Thornton et al., 2012).

From the viewpoint of ILP, the identities, values and interests of organisations and individuals are embedded in institutional logics and provide the context for outcomes and decisions. Thornton and Ocasio (1999, p. 804) define institutional logics as "the formal and informal rules of action, interaction and interpretation that guide and constrain decision makers". Furthermore, Shipilov et al. (2010) state that logics direct decision makers' attention towards certain sets of problems and solutions (Ocasio, 1997) and subsequently affect firms' decisions regarding whether or not to adopt particular practices. Therefore, the following subsections aim to provide a theoretical explanation for the reasons behind the presence and absence of voluntary ACs in Kuwait.

6.3.1 State logic

Although the state was passive in terms of issuing regulations/codes for AC, it might have played a role in the introduction of AC through its institutional investors (KIA and PIFSS). These investors hold a great number of shares in many listed firms. They also have board members appointed at many listed firms. These institutional investors provide their representatives with details of how they would like to see firms managed. For instance, the interviewee who represented the KIA in the 1980s is a board member of several firms argued that state-owned enterprises had formed voluntary ACs since the 1980s. They formed the AC based on guidance from the government. The interviewee stated the following:

> *"The companies I talked about, in 1986 or 1987, of which I was a member, were Z and S. They had an AC… I remember perfectly that the government required that {forming an audit committee} and other stuff… The Kuwait Investment Authority at that time owned part of it …... Because the KIA from 1980s had more expertise and vision than was found in other companies… they instructed their directors to head on the right track" (REG2).*

This interviewee claimed that the KIA had considerably more expertise and vision than individual firms at that time. Most importantly, the interviewee revealed that the KIA guided their representatives in firms regarding the best way to manage the firms they engaged with. One of these directions concerned the formation of ACs. These directions were not based on written regulations, legislation or recommendations but most likely were based on informal agreements. This is because there were no formal regulations,

legislation or recommendations issued in Kuwait by any bodies. This is rational under state logic because informal control and mechanisms are backroom policies (Thornton et al., 2012). What that means is that the appointed members might not be given formal written guidance but instead a verbal understanding. Thus, these members might have no option but to follow this guidance.

It is very important to mention that the Kuwaiti government, through the KIA, bought a number of listed firms in the 1980s after the Al Manakh crisis. The government bought these firms with the aim of supporting the market and restoring investor confidence. Thus, the government might have been overly cautious in the way it managed these firms. It used its representatives on the companies' boards to establish ACs. Consequently, it can be confirmed that state logic through its investment bodies (KIA) played a role in the introduction of voluntary ACs in Kuwait. Furthermore, it can be argued that state-owned firms seemed among the pioneers to introduce ACs in Kuwait. This is because they formed ACs in the mid-1980s, whereas the KSE was founded in 1983.

6.3.2 Market logic

Under market logic, the cost and benefits of any decision are crucial factors (Thornton et al., 2012). Because the formation of ACs is not costless, many interviewees believe that the cost is a crucial influence in the decision of whether to voluntarily form an AC. Furthermore, a number of interviewees argued that firm size is the most crucial factor that influences the decision to voluntarily form an AC. The interviewees believe that the majority of listed companies who have voluntarily established an AC are the biggest companies on the KSE. This confirms the findings of Mautz and Neumann (1977) who

found that CEOs, independent directors and internal and external auditors believed firm size was one of the most significant characteristics influencing the decision to create an AC. In the UK, Marrian (1988) found that 73% of firms who formed ACs were among the top 250 listed firms.

One of the reasons behind the belief that large firms comprise the majority of those that have formed an AC in Kuwait is that large companies would gain greater net benefits from forming an AC because the costs of an AC are relatively small. Thus, the cost of forming an AC for large firms is justifiable compared with its benefits, which is consistent with the market logic. Put another way, the interviewees believe that the benefits compared to costs of forming an AC are greater for larger firms. For instance, one of the accounting academics stated:

> *"The cost is nothing for them {big firms} but the small companies have disproportionate costs and, therefore, they do their best to avoid incurring the cost of formation" (ACCA).*

The interviewee also mentioned that the cost is a crucial hindrance to the formation of ACs in small firms. This point of view was also shared by a number of interviewees. For instance, the following citations were given by certain interviewees:

> *"Some companies may think that ACs may be costly - financial costly and also requiring considerable effort and time. I do not expect they know of the benefits or returns they could expect to realise" (ACCM).*

"They {the firms} think it an expensive process and do not realise what the benefits of an AC are" (EXT3).

"In some companies, their reluctance may be due to financial constraints" (ACCA).

The views of interviewees in this study reinforce the argument that economies of scale (cost vs benefit) are a crucial factor in the decision to voluntarily form an AC. However, most of the prior studies in this regard have not found a relationship between firm size and the formation of a voluntary AC (e.g. Collier, 1992; Bradbury, 1990; Menon and Williams, 1994; Willekens et al., 2004; Collier, 1993). However, other studies (Pincus et al., 1989) found such a relationship.[1] A possible explanation for why the findings of this study depart from the findings of the prior studies is the different context, since the previous studies were conducted in developed countries such as the US (Pincus et al., 1989), the UK (e.g. Collier, 1992; Menon and Williams, 1994), Australia (Chen et al. (2009) and New Zealand (Bradbury, 1990). In these countries, ACs receive considerable publicity. Thus, most firms voluntarily establish ACs, unlike in the Kuwaiti context. Furthermore, in these countries, apart from New Zealand, many recommendations were issued by either professional bodies or governmental agencies, while in Kuwait there were no such recommendations or regulations. Additionally, the establishment of ACs in these countries might be motivated by the necessity to gain legitimacy. For instance, Bradbury (1990) stated that AC formation has become a political issue in the US. In Kuwait, there is no need to form an AC to gain legitimacy

[1] It should be noted that most of these studies were quantitative, which might be a limitation when compared to the findings of this study.

because it lacks concern among stakeholders (as will be discussed in the following section).

On the one hand, the biggest firms might have voluntarily adopted and formed an AC due to their being more mature and experienced than other firms. An accounting academic and an independent board member mentioned the following:

> *"Large companies have dealt with various groups in the market and discovered that this practice exists in other markets. This is a behaviour that stimulates other companies and they simply mimic practices found in other markets" (ACCM).*

In addition, it can be argued that because these firms are listed on other international markets with different institutional environments, they formed the AC for the purpose of legitimacy.

On the other hand, the interviewees also claim that most of the firms that have not created ACs are less experienced, smaller and local firms:

> *"Some of these companies may only have small-scale activities. They may have a small office or a very small company and the process of forming an AC may be unfamiliar to the board of directors. They have no experience at all. They have a certain amount of money to form a joint stock company ... but they actually have all of their available money tied up in it… Some companies, I think, are not aware that there is something called an AC and they are not knowledgeable. They are local 100%" (ACCM).*

The interviewee implies that most of the activities of these firms are local and they have no international connections. Thus, the board of directors of these firms might lack experience and knowledge because they do not have dealings with international companies or because their businesses do not engage in diverse activities. This issue was raised by a number of interviewees including a non-independent AC member, an independent board member and academics. One of the accounting academics mentioned several interesting points in this regard. For instance, the academic argued that many of the firms in the KSE were founded with capital of approximately only KD3 million.[10] One of the non-independent AC members supported this point of view by stating that 40-50 percent of the firms listed on the KSE fall into this category. He argued that this type of firm might have one asset to manage or small offices and a very small number of employees with very limited activities. This makes the formation of an AC beyond their scope of operation. Thus, the formation of an AC from the viewpoint of the boards of these firms may also be costly and require more effort and time. In other words, a firm's decision that is driven by the calculation of cost and benefit is consistent with the market logic (Thornton et al., 2012).

6.3.2.1 Shareholder activism

One of the crucial elements of market logic concerns shareholder activism. This is because the source of authority under market logic is shareholder activism (Thornton et al., 2012). However, the majority of the interviewees believe that the role of individual shareholders in the General Assembly is passive and weak in Kuwait.

[10] KD 3 million is equivalent to £7.5 million sterling.

Furthermore, all of the interviewees think that retail investors have no idea about the term "audit committee." For example, an accounting academic and an independent board member at one of the investment companies stated that most investors in the KSE are "naïve" and do not have any idea about CG or an AC. Thus, if investors (those whose interests the AC should be protecting) are not aware of an AC, there is unlikely to be any meaningful impetus to form an AC. In order to verify whether or not this claim is correct, an interview was held with one of the founders of a protection of minority shareholders group. This interviewee is also a financial analyst and broadcaster at one of the biggest TV channels in Kuwait and a managing asset director in one of the investment firms. Surprisingly, when the interviewee was asked to talk about what he knew about AC, his response was:

> *"There are two audit committees, internal auditing and external auditing, which one do you mean?" (*POR3*)*

The response gives an indication that the interviewee did not know about the AC and was confused about the question. This interviewee should have had good knowledge about the AC because it plays a crucial role in protecting the interests of shareholders. When the highly qualified founder of the protection of minority shareholders bloc does not know what an AC is, then it might not be expected that individual small investors will have any better perceptions about the AC.

On the other hand, research findings showed that, in limited cases, some individual investors who have large shareholdings are more active and might request the formation of an AC to ensure that the management's work is in the best interests of shareholders.

For example, one of the independent board members believes that company owners require the formation of an AC in order to verify the accuracy of information contained in financial reports provided by the management:

> *"large parts of the companies are actually controlled by a few families - but the management of these companies is separate. Now I want to ensure the link between the owners and management and how they deal with... the owners of these companies because they have a large stake in these companies. Forcing the management to appoint, for example, an AC is a practice that adds value to the accounting information" (ACCM).*

Moreover, an AC member reinforced this point of view and revealed that the main reason for the formation of an AC was based on the investors' requirement to limit the power of the management and monitor them. The interviewee stated that

> *"In order to limit the powers of the executive management so that any project of great value can be submitted to the AC for approval…the AC is like the owner's eye to reduce any manipulation of executive management" (AC3).*

This interviewee is an AC member who represents one of the firm's biggest shareholders. This shareholder has stakes in a number of firms and needs a board and an AC to reduce the executive management's influence and to ensure that the management is working in the best interests of shareholders. From an institutional logic

perspective, this is a clear example that the motivation behind the voluntary formation of an AC is shareholder activism (an element of market logic).

Many of the interviewees argue that institutional and international investors might play a role regarding the formation of a voluntary AC. This is either as a result of a request by existing institutional or international investors or in an attempt to attract them. The reason behind this might be that these investors are more mature, experienced and knowledgeable about the benefits and importance of CG and particularly the AC relative to individual investors. For example, one of the accounting academics believes that some companies formed an AC to send a signal to investors and stakeholders that they have nothing to hide and are very open. Furthermore, a portfolio manager from one of the biggest investment firms mentioned that institutional investors (e.g. The KIA and PIFSS) and large investors prefer to invest in firms that demonstrate very good CG. The interviewee said that these investors are required to invest in firms that demonstrate good CG. For instance, one of the ex-chairmen of the Kuwait Accountant and Auditors Association and the current chief executive of a building company stated the following in this regard:

> *"Large investors are interested in this issue {AC} more so than the vast majority of small investors" (KAAA1).*

Hence, to attract institutional investors, some firms might create board committees. By having specialised committees like AC, this increases the sense of trust among investors, which in turn leads to further investment in those firms. An independent member of an investment company supports this argument:

"Some companies may target not only small investors but also institutional investors, large portfolio holders and those with considerable liquidity who want to attract them" (ACCM).

From this point of view, the formation of an AC might attract large investors. This is because these investors prefer to invest their money in a company with "better" CG and strong internal monitoring mechanisms (Louizi and Kammoun, 2016). According to McKinsey and Company (2002), a premium of 12–14 % could be paid by institutional investors to firms that implement best governance practices. When one of the Big Four external auditors was asked why some firms have not voluntarily formed an AC, they replied:

"A lack of big investors or sophisticated investors who are asking for such committees" (EXT1).

This response underpins the previous argument. From the standpoint of this external auditor, the lack of big investors might be one of the reasons why some firms have not created an AC. In addition, it can be argued that big investors may ask the firms in which they invest to create an AC.

From the findings in this section, it can be summarised that big or institutional investors might offer a motivation for the formation of an AC. It could be a motivation for firms that have or are looking to attract these investors. This finding is in agreement with the findings of Pincus et al. (1989). These researchers argue that users of financial reports are not the same in terms of their need for financial information. They argue that professional and big investors might require different information than individual retail

investors. The former need more reliable information. One of the aims of forming an AC is to improve the reliability and credibility of financial information. Thus, they argue that this may create an additional incentive for firms to form ACs to satisfy institutional and professional investors.

6.3.2.2 Market status of firms

Market logic is also concerned with improving the market status of firms. Simply put, any behaviour or decision being directed by this logic improves the firms' competitive position. In other words, some firms might make a decision to improve their market status by being distinct from their competitors. Furthermore, maintaining or improving the firm's reputation might be a crucial factor that leads some firms to form an AC. One of the ways in which they can become unique is to be more transparent. This is especially true in a country like Kuwait because the level of voluntary disclosure is very low. For example, Alfraih and Almutawa (2017) found that the mean level of overall voluntary disclosure over the 2005-2008 period was 23 percent. Therefore, some firms might aspire to gain a reputation for transparency and integrity. When the interviewees in this study were asked why they took the decision to voluntarily establish an AC, some of them responded with pride that it was because the stakeholders would associate them with more transparency and credibility. An AC interviewee stated the following:

> *"In general, the perception in all banks was that we were not like the rest; our group of companies and our subsidiaries was a major reason why we were transparent. People know that this group is different, and I think this may be one of the reasons for the existence*

of such practices in our subsidiaries; especially that our company is owned by major companies" (AC2).

Therefore, some firms aspire to gain a reputation for transparency and integrity. Some companies not only seek to comply with the prevailing legislation/regulation and practices in the country in which they operate but are keen to follow and apply best international practices. Although Kuwait is very late in passing legislation with regards to CG, especially relating to ACs, there are a number of companies that have been keen to apply international best practice. From the viewpoint of the interviewees in the study, one of the most significant reasons that led companies to establish a voluntary AC is their association with international rating agencies. These companies formed an AC because they were looking either to obtain a rating or to get better ratings from international rating agencies, which is consistent with the market logic. For example, one of the non-independent AC members stated that

"Because they are mainly professional companies… they have an annual assessment by the world's largest rating companies such as Fitch, Moody's and Standard and Poor's. They basically pay money to be evaluated in terms of whether or not they comply with standards. So, it requires that you need to have committees; you have many requirements in order to receive a ratings upgrade" (AC2).

These rating agencies set standards and criteria of ''good governance'' in their rating process and one of them is to have an AC (Louizi and Kammoun, 2016). Thus, some

firms have formed an AC in order to be awarded a good rating. One interviewee further argues that all the firms that have voluntarily formed an AC have a credit rating:

> *"I do not expect a company that has implemented CG not to have a rating. I mean I expect this is the main reason; it is associated with international rating companies" (AC1).*

This interviewee added that companies with a credit rating may have applied and formed the AC in their subsidiaries. One of the company chairmen, who is also a board member in other firms, confirmed that one of the reasons for forming an AC is to seek a credit rating:

> *"In one of the insurance companies in which I sat on the board of directors, we formed an AC and one of the reasons for this was that we were looking for a rating" (AC2).*

A rating upgrade improves the market status of firms, which, in turn, enhances their dealings with different stakeholders and international companies. This is in line with the market logic as one of the elemental categories required to promote the market status of a firm (Thornton et al., 2012). Moreover, the formation of an AC might improve access to finance for these firms and might also improve finance terms such as the interest rate paid.

Access to finance and dealing with international companies are crucial factors that were mentioned by some of the interviewees as a motivation for the voluntary formation of an AC. Some firms in the KSE might form an AC to send a positive signal to creditors or to gain a creditor's confidence, hence facilitating access to finance. This factor was

mentioned by an independent AC member, an independent board member and an accounting academic:

> *"When banks deal with companies that have an AC, this will raise the sense of assurance towards these when they request loans from the banks. As you know, companies need loans from banks, but lenders require assurance. By having a specialised committee like the AC, this will increase the sense of trust that banks have in a firm, thereby increasing the likelihood they will provide loans to these companies" (ACCA).*

However, another board member was asked whether creditors in Kuwait considered and appreciated the existence of voluntary ACs when dealing with them. The interviewee stated that he had been a board member of four firms and banks never asked about the AC when companies sought finance. He also believed that banks in Kuwait do not consider the existence of an AC when they make their decision of whether or not to provide loans.

These two conflicting opinions encouraged the researcher to interview the head of a corporate finance department at one of the biggest banks in Kuwait. The interviewee was firstly asked general questions about the AC. His answers indicated that he had little knowledge about ACs. Then, the interviewee was asked a direct question regarding whether or not they evaluated and considered the existence of board committees, in particular the AC, when they made decisions about providing a firm with finance. He responded that they do not even pay attention to this aspect and that

what matters to them is the solvency and integrity of board members. This was unexpected because this bank is considered to be one of the biggest banks not only in Kuwait but the Middle East. This bank provides corporate banking in 8 countries across Europe, Asia and the Middle East. Thus, it was expected to take into consideration the importance of the AC when making decisions about the creditworthiness of a firm. Most importantly, the perception of this interviewee indicates that creditors in Kuwait do not provide an incentive for firms to voluntarily form ACs.

Having said that, some firms not only deal with domestic banks but also international creditors and companies. Thus, these firms should follow international best practice in order to gain the confidence of international firms such as creditors and suppliers. For instance, some firms in the KSE might require a loan from international creditors. These creditors, unlike local creditors, are likely to evaluate and review the structure of firms such as board committees before providing funding. Anderson et al. (2004) stated that creditors view an AC as a vital mechanism for ensuring the reliability of financial reports and found that the size and independence of an AC affects the price of debt. Thus, some firms listed on the KSE might form an AC to send a positive signal to creditors or to gain the creditor's confidence and, hence, facilitate access to finance. This point of view was stated by one of the independent AC members:

> *"Most of the companies that voluntarily formed this committee were dealing with international companies, so companies preferred to form this committee in order to comply with international best practices to facilitate access to external financing" (AC3).*

This point of view confirms the argument that managers and shareholders have motivations to offer debtholders and creditors better levels of monitoring by forming an AC (Pincus et al., 1989). The results in this area are mixed. For example, Bradbury (1990) and Willekens et al. (2004) found no relationship between leverage and the voluntary formation of ACs in New Zealand and Belgium. However, Collier (1993) and Chen et al. (2009) reported a positive relationship in the UK and Australia. Pincus et al. (1989) found that in the US there was less strong support for this relationship. These mixed results might be due to different institutional environments. For example, in most developed countries the formation of an AC might become taken for granted. The findings in this study suggest that there are differences in perceptions between the banks in Kuwait and foreign banks. Kuwaiti banks do not price the existence of the AC, whereas international creditors do. There might be two explanations for this difference in perceptions. Either local banks perceive that the formation of ACs as being merely for cosmetic reasons in order to give a positive image rather than truly monitoring the firm or there is a lack of knowledge about the importance and roles of the AC. Having said that, the responses of interviewees to general questions about the AC give the impression that the second explanation is more likely to be the case than the first.

6.3.3 Corporate logic

Corporate logic supplements market logic in terms of economic perspective (Thornton, 2002). Nevertheless, corporate logic simultaneously pays attention to effectiveness in managing the firm, and its organisational culture (Thornton et al., 2012). To distinguish between market logic and corporate logic, the latter is largely motivated by internal factors, whereas the former is more influenced by external factors.

One of the most crucial reasons for some firms to voluntarily establish an AC is to improve how the company is managed. Many interviewees mentioned that one of the main aims when forming an AC in Kuwait is to improve the firms' policies and procedures and ensure that management follows the board's strategy and instructions. This is because the AC is a subcommittee from the board of directors. Furthermore, one of the main roles of the AC is to review internal control and auditing and to ensure the appropriateness and effectiveness of internal policies and procedures. In the same context, all of the board and AC members, when asked about the roles of AC, mentioned that the first role is to ensure the internal policies and procedures are operating properly. This indicates that the main purpose of forming an AC is to enhance the internal control of firms. The interviewees mentioned that internal control is crucial in big firms whereas in small firms it might not be very significant. This is because large firms have substantial activities, a large board size, many branches and subsidiaries, and the absence of sufficient monitoring tools might adversely affect the efficiency of these firms. One of the current CMA regulators argues that it is difficult to compare companies because of differences in their size, distribution and subsidiaries. She stated the following:

> *"I give you a metaphor by way of example ... Zain and another company such as Kuwait Slaughter House... Any comparison is unfair… the size of Zain and its spread and its subsidiaries... so I told you that the AC is the safety valve... if they feel the danger... if they do not form the AC, they will fall into big trouble... so, they formed an AC - especially those who are groups... they {the big firms} have many subsidiaries with consolidated financial statements" (REG2).*

From the viewpoint of this regulator, the AC is more crucial for the biggest firms than their smaller counterparts. This is because large companies have many complicated activities and subsidiaries whereas small firms might have fewer assets. The more activities, branches, subsidiaries and distribution channels a firm has, the more adequate and efficient its monitoring tools need to be. Thus, this interviewee argues that the AC is like a safety valve for these firms which might prevent them from experiencing failure or crises. Without good monitoring mechanisms in place, these firms might be in trouble in terms of their vulnerability and it could cost them in the form of sizeable losses. Thus, these firms need a monitoring tool to ensure the adequacy and effectiveness of their internal controls and financial reporting information. Therefore, these firms form an AC because of their capacity to monitor internal controls and financial reporting. According to an AC member:

> *"In some companies, credibility and governance are the goal and they are transparent with their shareholders. This was the main objective, as well as improving the company's performance" (AC2).*

The interviewee mentioned governance, credibility, transparency and performance as the reasons for the formation of an AC. The reason behind this is that an AC enhances a company's performance by ensuring the compliance of the company's departments with the procedures and policies approved by the board of directors. This opinion was also supported by two other interviewees (an AC member and a board member in other firms). This interviewee (AC2) also mentioned that the motivation for the formation of an AC might be to improve the company's performance. He believes that establishing an AC would assist the firm in times of financial crisis. He also suggested firms that

form an AC suffer less in difficult times than those firms that do not form an AC. The chairperson of an AC and an AC member in another company reinforced this argument:

> *"I will tell you honestly, the main thing that made us apply {to form an AC} that I talked about before was not the CG code, it was the financial crisis. So, we as a company have applied CG in a very positive way before it was imposed on us. The reason is that we suffered severe losses during the financial crisis because the nature of our decision-making was wrong. This is why we have focused on improving our CG. People lost large sums in the financial crisis and I think the loss was due to not performing tasks and responsibilities in the proper manner. The chief executive was making decisions alone and no one was questioning or preventing their decisions and even the law was not preventing them. We lost a lot and that is well known. The board of directors, in order to be able to manage things in the right way, set the tasks and responsibilities of the employees... and formed committees in order to take decisions... so the CEO couldn't make decisions in isolation. Again, the basis on which we formed the AC was in response to the losses that occurred in 2007-2008" (PORTAC).*

For this interviewee, the losses realised during the financial crisis were the motivation to form an AC. The interviewee believes that the problems stemmed from weak policies and procedures within the firm and the failure to adequately monitor the chief executives and their decisions. Thus, they formed the AC because its main roles were to improve internal control, policies and procedures and to impose greater oversight of

the chief executives. One of the external auditors supported this point of view by stating the following:

> *"I find that companies that do things voluntarily, for example by having an internal audit department or an AC, a risk committee and a voluntary investment committee, have better performance than that of other companies in terms of profitability and work procedures. This is from my experience in auditing." (EXT4)*

A current regulator at the CMA supports this point of view by describing the firms that have voluntarily formed an AC as:

> *"…unique in their work… they want to make sure that the mechanisms, procedures and criteria they use are in line with the company's interests because they look at the long-term and not the short-term. This is why they introduced them before the CG code." (REG2)*

The AC is also responsible for reviewing the commitment of the executive management with the instructions of the board of directors. This in turn might prevent or detect fraudulent activities or irregularities. Moreover, proper internal control procedures within the firm will result in fewer resources being wasted, improve the efficiency and effectiveness of the firm and ensure more objective assessment approaches and more accurate and timely management measurements. Cobb (1993) identified that two of the four main purposes for creating ACs are to prevent fraudulent financial reporting and reduce illegal activity.

The opinions expressed by these interviewees are consistent with the findings of McMullen (1996), Garcia-Meca and Sanchez-Ballesta (2009) and Beasley (1996). For instance, Caplan (1999) stressed the importance of ACs for a firm's discovery of irregularities, fraudulent actions and errors. Moreover, Garcia-Meca and Sanchez-Ballesta (2009) and McMullen (1996) noted that by forming ACs, firms can achieve irregularity and error reduction in financial statements and an improved credibility of financial reporting.

One of the most important elements of corporation logic is corporate culture. In this study, some firms were motivated to voluntarily form an AC because of their culture. These firms pay considerable attention to preserving their reputation and corporate culture. For instance, it was mentioned (in market logic) that the role of individual shareholders is passive in the general assembly. However, many interviewees were of the opinion that many firms voluntarily formed an AC because they wanted to maximise the interests of shareholders and stakeholders. Put another way, in the previous section the motivation stemmed from the shareholders (external factor) but in this section the motivation stemmed from the board and management (internal factor). This is a clear distinction between market and corporate logics. The following quotations are taken from a partner at a Big Four auditor and an academic, respectively:

> *"The companies that formed a voluntary audit committee at that time were intended to show shareholders and creditors that they were implementing CG" (EXT1).*

"This is based on the principle of transparency with investors and stakeholders. At the same time, the management sends a signal to the investors or shareholders that we do not have anything to hide... our hands are clean, we want everything to be clear and evident to investors... but again it is based on the principle of transparency and disclosure that leads to the creation of this committee" (ACCA).

These interviewees believe that one of the main reasons for the formation of an AC is to satisfy stakeholders' interests. This is because the main role of an AC is to improve the credibility and disclosure of financial reporting. The accounting academic also pointed out that firms which form ACs seek to gain the confidence of stakeholders in terms of the way the company is run. Most importantly, this participation implies that the formation of an AC gives a positive impression to stakeholders, where the management of the firm works to serve investors' and stakeholders' interests, not the management's interests. It also indicates that the firms' management that formed the AC aims to show they are honest and transparent. Thus, it can be argued that the impetus for the voluntary formation of AC is from the corporate culture because they formed the AC based on their belief about their responsibilities to shareholders without any pressure from shareholders. A chairman of a board of directors and an AC member in two other firms supports this point by stating that they formed an AC because of the company's mission:

"The company's mission is oriented towards credibility and transparency with shareholders and trying as much as we can to make the best efforts in this respect" (AC2).

This interviewee clarified that the reason for AC formation is to increase transparency and credibility with shareholders. Furthermore, these companies care greatly about the investors and their interests, not only in the short-term but also the long-term. A current regulator in the CMA explains why these types of firms formed an AC before the foundation of the CMA:

> *"Because these companies are proactive, they care about their reputations and they are interested in being pioneers in everything because this will benefit them in the future in terms of profitability, achieving their goals and sustaining their reputation. If they want to raise capital easily… rating agencies look at them differently because they apply CG when there is no obligation to do so. All of these things give them added value when they want to issue bonds… so those who formed an AC before regulations compelled them to do so had a vision and long-term goals and were not perceived as having been affected by the economic crisis" (REG2).*

In addition, some big firms might require their subsidiaries to follow their procedures and policies. In this study, more than one of the AC and board members mentioned that the reason for voluntarily forming an AC was due to being required by the parent company, even though there is no regulatory requirement in Kuwait to do so. These firms pay great attention to board structure, internal control and the accuracy of financial statements. This is because any error or mistake in their subsidiaries might harm the parent company and its reputation. A good example of this is the comment

offered by a chairman of an AC who revealed that the main reason they formed an AC in the parent company and its subsidiaries was as follows:

> *"In accordance with the policy and direction of the parent company… they believe in the necessity of the AC, even though they are not legally required. Also, we are a subsidiary of one of the largest companies in the region, so we are concerned with such policies and recognise their importance" (AC4).*

This interviewee indicated that the decision to voluntarily form an AC was made by the parent company and it required its subsidiaries to do so. The reason behind this might be because the parent firm recognised the benefits and importance of an AC. It is very important to mention that the subsidiaries' board members are appointed by the parent company and some of these members are also employees of the parent company. Thus, it can be argued that these board members might be unable to refuse these requirements. Under corporate logic, this action is understandable because the source of authority is the board of directors/top management. Simply put, with regards to the parent company and its subsidiaries, the board of directors of the parent company is the source of authority because it is at the highest level in the hierarchy. Consequently, the board of directors in the subsidiaries should follow the policies and procedures of the board of directors of the parent company.

6.3.4 Family logic

In the Kuwaiti context, many listed firms on the KSE are owned by families. Family ownership in Kuwait is characterised as a pyramidal ownership structure (Alshammari, 2014). In Kuwait, it is a common practice for families to use their own companies as

vehicles to invest in listed companies. The majority of firms on the KSE are family-owned firms (Al-Saidi and Al-Shammari, 2014). Furthermore, families have the largest shareholdings in the banking (27.10%) and manufacturing (16.07%) industries (Mutairi, 2011). Although these firms are listed on the KSE, the dominant owner families treat these firms as though they were fully owned by the family. As such, these families manage the firms based on their own culture and serve their own interests. Family firm behaviour differs from that of non-family firms. This is because family firms take into consideration the goals, norms and values of the family. Simply put, firms that are dominated by family logic can be defined as having a set of values and targets that dictate how the firm operates and ensures that it serves the family's interests. Most of the interviewees believe that family ownership is a crucial barrier in the decision of whether or not to form an AC. For instance, a portfolio manager who manages a fund for one of the biggest investment companies in Kuwait and attends many firms' General Assemblies stated the following:

> *"Many firms in the Kuwaiti market have weak CG... {These firms} are dominated by small groups or families.... These companies are not interested in CG on the board of directors… For example, boards lack diversity and often comprise families or a single business group or investment group. Consequently, an AC is not important for them" (PORT1).*

From his point of view, the lack of diversity in terms of firm ownership is the main reason for the weakness of CG in general and especially the formation of an AC. This is because when a single family or investor controls the firm, the owner believes that an AC is unimportant. This is because the board of directors and management might

comprise members of their own family or friends. In other words, they do their own monitoring. This point of view is also supported by an independent member of one of the investment companies, who said that the majority of firms in the KSE are family-owned and the board members and managers are often the owner's family or friends. In this case, there is no conflict of interest because the managers are the owners, or their friends, and they trust each other:

> *"Most companies in Kuwait are family-owned; the members of the board of directors may have different names, but in the end, they are all first-degree relatives or second- or even third-degree relatives, and if there were no blood relationships, there would be friendships. Therefore, a person is assigned to the board of directors or the management of this company only because he is trustworthy… there is no actual separation between ownership and management. So, in reality, whoever owns the company is managing the company at the same time. Thus, it's not an agency problem" (ACAM).*

The interviewee criticised the method of appointing board members at many listed firms on the KSE. The interviewee stressed that most board members of the KSE listed companies are not appointed based on their knowledge or experience but because of their blood relationship or friendship with one of the owners of the firm. A partner at one of the big four auditing firms stated that families who own the majority of a listed firm typically act as if they owned all the shares in the firm:

> *"Most companies in Kuwait are family companies and, therefore, they believe that there is no need for this committee because the company is still a private company to them, even if it is listed" (EXT3).*

This external auditor believes that when a family controls a firm, they manage the firm as if they were the only owner and ignore the interests of minority shareholders. This quotation implies that family-owned companies lack the listing culture. The board of directors and management of these types of firms might only comprise family members or friends. Thus, from their point of view, there is no need for an AC.

A board member of two firms argues that when a family owns a majority stake, they care very little about the other minority shareholders and prefer not to reveal or disclose information to them. The interviewee also stated that he is a board member with a minority shareholding and that the family who own the majority prefer to release as little information as possible. More surprisingly, he stated the following:

> *"Studies say that 96% of companies in the Gulf are family-owned businesses, so when you invest as a minority shareholder in a company, you often invest alongside families who will not share information with others. Most of these families do not like to share the information they have with other people… and it is only by mistake that we find about most of the important information, especially negative information, despite being owners like they are. For example, I only found out about one of the big issues relating to the company through Twitter and I am a board member!" (PORTAC)*

This interviewee said that based on his experience, family-owned companies prefer not to share information they have with other investors who have only a minority shareholding. Most surprisingly, even board members (non-family members) with

minority stakes in these firms have the same amount of information as the other shareholders who are not board members. Simply put, there is a considerable information asymmetry issue between the majority owners (family members) and the minority owners, even if they are board members. The interviewee also mentioned in the interview that this issue occurs because family members or their friends hold almost all the managerial positions. Furthermore, he stated that the family board members in this firm do not discuss critical issues with them in board meetings. Rather, they discuss these issues between family members. In other words, family board members have better information than non-family board members within the same firm.

These opinions reinforce the view of Morck et al. (1998) and Morck and Yeung (2003) who argue that the agency issue in family firms is that managers work mainly for one shareholder (the family) and largely ignore the other shareholders. This viewpoint confirms the criticism of Kellermanns and Eddleston (2004), who criticised family-owned firms for employing people not due to their qualifications but their family position. From the previous findings, the interviewees are critical of family firms appointing board and managerial positions based on trust and relationships rather than qualifications. However, from the ILP point of view, this behaviour is justifiable under family logic. This is because one of the core assumptions of family logic concerns unconditional loyalty. Thus, the family members and their friends who work for the firms should serve the interests of the family, increase the family's wealth and take care of each other without taking into consideration minority shareholders. Additionally, family firms are considered to be nurturers for family members in Kuwait. Further, family members often receive a regular salary even if they are not required to work

(Ali, 1990 cited in Welsh and Raven, 2006). Therefore, this aspect of culture sustains the family logic in family firms. This is because they want to protect their nurturers.

Because family members occupy all the influential positions in family firms and have access to all the information they need, they believe that there is no need for an AC in their firms. Also, an AC might improve disclosure, which is not desirable for company owners. When asked why he thought that family firms in Kuwait prefer to disclose less information, this board member attributed this to a societal and cultural issue related to the customs and traditions of Kuwaitis, who believe in the detrimental impact of envy:

> *"This is the nature of our society. I think it is a societal issue. It means that people are afraid of envy. This is the nature of Kuwaitis in general. They always like to hide... people do not like to disclose their money, do not like to reveal their assets... do not like to reveal their problems; these things are not normal of Western societies who do not have a problem with these things. I think it is due to our customs and traditions rather than technical or professional matters" (PORTAC).*

The interviewee believes that Kuwaiti family firms do not like disclosing any details about their business due to a social/cultural issue (fear of envy). In fact, this behaviour is prevalent in Kuwaiti society where individuals may not disclose family income or success due to a widely held belief that they could be the object of others' envy (El-Islam, 2005). According to above interviewee, it is the culture in Kuwait to hide rather than disclose and, thus, this social/cultural issue affects the way in which firms are managed. This is also another example that illustrates how family listed firms behave as though they own all of the shares in the company. Therefore, they prefer to maintain

secrecy and avoid disclosure. However, there might be another explanation for this. The ILP might provide more insight about this behaviour. One of the core assumptions of family logic concerns the family's reputation. Simply put, family members would avoid any behaviour or decision that might tarnish the family's reputation. Thus, because family members care greatly about their firm's reputation and survival, they prefer to disclose less negative information that might adversely affect their family's or the firm's reputation. Given that one of the aims of the AC is to improve the disclosure and transparency of financial information, family firms may be motivated not to form an AC to avoid disclosing negative information. Also, because family members and their friends dominate the board and management of firms, they have access to the information they need. Consequently, this behaviour is reasonable under family logic.

What supports this argument is that the findings of previous studies in Kuwait reveal that the existence of voluntary ACs is significantly and positively associated with the level of IFRS-required disclosure (Alanezi and Albuloushi, 2011) and the extent of voluntary disclosure (Al-Shammari & Al-Sultan, 2010).[1]

Moreover, the findings of this section might provide an explanation for why the findings of previous studies in Kuwait regarding the relationship between disclosure and family firms are inconclusive. For instance, Alanezi and Albuloush (2011) studied family firms and disclosure, revealing that Kuwaiti firms with lower levels of compliance with IFRS-required disclosures are likely to have their boards controlled by members of a single family. However, Al Fraih and Almutawa (2017) found no

[1] Other studies found a non-significant positive relationship between the existence of an AC and the level of corporate risk disclosure (Al-Shammari, 2014) and voluntary disclosure practice (Alfraih and Almutawa, 2017).

relationship between voluntary disclosure practices and the percentage of family members on the board and the presence of the ruling family on the board. Also, Al Shammari (2014) found no relationship between the number of family members on the board and corporate risk disclosure. These studies only take into consideration the names of family members on boards. However, they do not take into account the importance of friendships. In other words, there might be some board members who do not have the same family names, but they are still considered as being family members. This may be because it is difficult in quantitative studies to quantify friendship.

Having said that, the portfolio manager believes that there is no issue with family ownership itself. Rather, the problem exists when a single family or investor controls the firm:

> *"I do not think there is a problem with family ownership but there is a problem when there is only one family in control. I'll give you an example: the National Bank of Kuwait and Kuwait Finance House have large family ownerships but at the National Bank of Kuwait there are five or six families in control. The existence of five or six families by itself creates corporate governance. If there is a single family, the whole board of directors would follow in one direction but the presence of more than one family and their different economic or political orientations create the best governance" (PORT1).*

This is because when a number of families invest in or own a firm, this diversification in ownership by itself creates CG. The reason behind this might be that these families compete to dominate but they coexist and thus monitor each other, and they have the

power, unlike small investors, to ask to form an AC to improve the monitoring of the firm. Also, this diversification in family ownership ensures that there is no single family that dominates the management or the board and thus appointments will be based on qualifications rather than family relationships.

In general, the findings in this section are consistent with the general assumption that the motivations to voluntarily form ACs rise with the agency costs of equity. Prior studies have attempted to establish the relationship between managerial ownership and the formation of voluntary ACs. However, the results of these quantitative studies have yielded inconclusive and conflicting results. Some interviewees in this study are in line with the findings of Pincus et al. (1989) in the USA, who found a negative relationship between firms with high agency costs and the voluntary creation of ACs. Other studies found no such relationship. For instance, no relationship has been found in the UK (Menon and Williams (1994), in New Zealand (Bradbury, 1990), in small to medium size firms listed on the ASX (Chen et al., 2009), or in Belgium (Willekens et al., 2004).

Because most of the previous research is based on agency theory, these studies argue that the greater the managers' ownership of the firm, the more closely aligned are the managers' and shareholders' incentives. Although the current study is in line with the findings of some of the previous studies, this study provides more insight about the formation of ACs and family firms. For instance, this study provides an explanation for why family firms do not prefer to form ACs. Previous studies have not taken into consideration social and cultural factors in this topic. For instance, the findings reveal that the barrier to the formation of an AC in family firms is not only because they have

better access to information but also because they believe in the detrimental impact of envy.

Also, these studies attempted to establish the relationship between two elements: managerial ownership and the voluntary formation of AC. The ILP provides a deeper comprehension and understanding of the topic. The findings in this study demonstrate that the issue is not only about managerial ownership but also more complicated social factors. For example, the findings indicate that the issue in the Kuwaiti context, unlike in developed countries, is more about the majority (family ownership) and the minority. Furthermore, the findings suggest that family board members have better information than non-family board members within the same firm.

The findings indicate that family logic dominates in family firms and guides the behaviours of these firms. As such, the family interest should be given priority. For example, appointments to the firm's managerial positions are usually given to family members, relatives or their close friends (Sonfield et al., 2016). From the ILP perspective, this is rational for a number of reasons. The first is that family members are embedded in the family norms and customs. In addition, family members and their friends or relatives are appointed because of their loyalty and trust rather than their competence. The reason for this might be to maintain the interests and goals of the family. Moreover, another reason for appointing family members, even if they are not qualified, might be the principle of taking care of family members (Ali, 1990 cited in Welsh and Raven, 2006).). The findings of this study also reveal that family firms prefer to disclose less information (particularly negative information) to other shareholders and stakeholders. This is either because of a desire to maintain the family's reputation

or is inherited from the culture of secrecy in Kuwaiti society. Because one of the roles of an AC is to improve disclosure, the findings reveal that this type of firm might prefer not to form an AC.

6.3.5 Professional logic

Undoubtedly, board members are very crucial in importing and implementing CG practices in firms. This is because the decision to form an AC is made by the board of directors. Goodrick and Reay (2011) conceptualise that when individuals are embedded in professional logic, the boundaries and content of their work would be set by professional standards. In other words, professional board members depend on abstract knowledge to achieve their work. Therefore, the professional board member should follow best practice by acting in the interests of the shareholders. Thus, these board members might use their professional skills in addition to their past experience and knowledge to improve the way in which the firm is managed. Thus, when the board comprises a member who has experience of ACs, this member might bring their experience to the firm. Simply put, the professional logic guides the individual to follow the best CG practices and one of them is the formation of ACs. The interviewees suggest that the competence, qualifications and experience of board members are barriers hindering the formation of ACs. For instance, one of the accounting academics and independent members in the investment company stated the following:

> *"One of the reasons I guess is that a board member may have been on a board overseas, for example, and discovered the practices that these companies follow and the value they create, and, consequently, have imported the idea. You know what happened in 2002 and the Sarbanes-Oxley Act, one of the most important things they focused on was the AC.*

A large number of Kuwaitis lived and studied in the US during that period, which may be one of the reasons" (ACCM).

This argument was mentioned by a number of interviewees. For example, a member in one of the big audit firms argued that the educational background and certification of the board members are crucial factors in the decision of whether or not to form an AC. The interviewee believes that a board member who studied abroad and is better educated might play a significant role in this regard. The reason for this belief is that the business degrees provided in Kuwait do not involve CG modules for the bachelor's degree:

"A difference not only in knowledge but also in awareness ... there are people who studied abroad who have certificates" (EXT2).

These opinions reinforce Marrian's observation (1988) that ACs are often formed as a result of the encouragement of an individual director who had previous experience of ACs elsewhere. Furthermore, one of the AC members mentioned that the knowledge and experience of the board members regarding the AC is a crucial factor in the voluntary establishment of an AC. The interviewee believes that these types of members might import this practice to their firms. Moreover, one of the Big Four external auditors argues that differences in the level of knowledge, education and awareness among board members are significant barriers to the formation of AC:

"You have to know an important thing in the market ... the owners of companies and those with sizeable stakes in companies have great disparity in their knowledge and level of education. There are people who have a high level of education and experiences... they think that these

committees are for the best, not the worst; thus, they have done it before [the Corporate Governance Code]."

"First, because they are not convinced of the importance of the AC ... they do not know what the benefits are" (EXT2).

"I noticed that the majority of the boards of directors in these firms are more qualified than the boards in other firms that might not know what an AC is" (EXT3).

Based on these quotations, the auditors argued that qualified board members (in terms of experience and knowledge) might be a significant factor in the formation of an AC. Qualified members are those who have better knowledge and experience in their roles and seek to improve their firms.

Looking from the ILP, social actors are key to understanding institutional persistence and change. According to Binder (2007), institutional logics are not exclusively top-down. In reality, an individual with previous knowledge and experiences would either question them, play with them, or merge them with alternative institutional logics from other domains to adjust and appropriate them to suit their own purposes. In other words, individuals with past experience and knowledge as well as having been exposed to more than one institutional logic are able to make the change and improve the existing practices. In this case, the board members who imported the AC might be embedded in family logic, but they are not fully committed to it because of their past experiences and knowledge. Therefore, they might realise the benefits of the AC either by education or work experience and then bring it to their own companies.

On the other hand, the appointment of inexperienced (unprofessional) members might also be one of the barriers to the formation of an AC. An accounting academic and independent member in one investment firm criticised the method of appointing board members at many listed firms in the KSE. The interviewee stressed that most of the board members of KSE-listed companies are not appointed based on their knowledge or experience but because of their blood relationship or friendship with one of the owners of the firm. The academic also stressed that professional board members are very rare in Kuwait. In this case, the appointment of members with no knowledge about CG, and especially AC, might be one of the barriers. From the institutional logics perspective, making appointments based on nepotism (family and friends) without taking into consideration their experience or knowledge might lead to maintaining the prevailing logic without questioning it. In this case, these types of members might be passive without providing any improvement to the management or governance of firms.

Some of the interviewees believe that even some board members of listed firms in the KSE are unfamiliar with the term 'audit committee". For instance, an independent board member and accounting academic stated:

> *"In some companies, I expect that they are unaware… they have no awareness that there is something called an AC and they are not familiar with it" (ACCM).*

Moreover, when a board member and an AC member were asked why they and other firms had not formed an AC before the issuance of the CGC, they admitted that they and other firms lacked knowledge and awareness of the AC:

"In my opinion, ignorance is number one. Secondly, they do not have the knowledge about these regulations. We are a company looking to be professional, but in the past we did not know about corporate governance and we did not know about these committees' impact and importance" (AC1).

Most surprisingly, when two board members of the KCCI were contacted to participate in an interview, they responded that they did not have any idea about this term. The KCCI is a consultative body in all economic affairs. The body serves the interests of business by actively lobbying for and representing the positions of businesses and industrialists in the country (KCCI, 2018). The KCCI board members are considered to be the most powerful and wealthiest merchants. Additionally, they are often board members of several listed firms. it is worth remembering that the KCCI is regarded as the most powerful professional body in Kuwait (Moore and Salloukh, 2007). Therefore, this body is expected to have been importing and promoting best practice in terms of CG such as ACs in Kuwait. At the very least, its board members should be very experienced and knowledgeable about these practices. However, this group of individuals appears to lack knowledge and awareness of ACs.

Moreover, it is worthy to mention here that many ACs around the world were introduced based on the recommendations of professional bodies. However, in Kuwait there is only one professional accounting body (KAAA). Although it has no power to issue any regulations in accounting, they could issue recommendations regarding the formation of ACs. However, this body has not issued any such recommendations to date. The board members in this body are elected by the members associated with the

KAAA. Anyone who holds a two-year diploma or above can be a member of the KAAA and there is no need to pass any exams. Mostly, the method for choosing a particular candidate in the election is based on social ties such as family, tribe or friendship but little attention is paid to the qualifications of that candidate. The main concern of the board members is the social events such as celebrating the National Day, Independence Day or fetes. Sometimes the KAAA provides basic training programmes such as accounting for non-accountants. Thus, it can be argued that this professional accounting body could issue a recommendation regarding AC. However, the method for electing board members shifts the interests of the board members from professional aspects to social aspects.

In sum, the findings in this section suggest that the role of professional logic was limited in the formation of ACs in Kuwait. This is because of the lack of professional board members, the lack of educated and experienced board members and the passive role of professional bodies.

6.4 Discussion and conclusion

The aims of this chapter were to provide insight into the introduction of ACs in Kuwait before it became mandatory in 2013. The first objective of this chapter was to highlight the reasons for the delay in issuing regulations, codes or even recommendations regarding ACs. The second objective was to provide greater understanding of the motivations (barriers) for the formation (non-formation) of voluntary ACs in the era before the issuance of the CGC by the CMA. This study used the ILP to analyse the findings. From the ILP viewpoint, institutional logics guide the decision-making of the organisation or individual. These logics can be in conflicting or complementary

relationships. The dominant institutional logics within an organisation can affect the decision to adopt or not adopt a particular practice (Shipilov et al., 2010).

With respect to the first question, the findings revealed that the main reasons for delaying the issuance of regulations, recommendations or codes were the regulatory environment, a lack of interest from the state, conflict of interest between the regulators and regulated parties, and the culture and mentality of regulators in Kuwait. These reasons may be directly or indirectly due to the domination of family and market logics over state logic. This is because many of the regulation positions relating to business affairs in the state (e.g. the Ministry of Commerce and Industry and the Kuwait National Assembly) are dominated by merchant families or their friends. As such, these people are embedded in market logic and family logic, which conflict with the interests of state logic. This is because market logic concerns self-interest whereas state logic's focus is on enhancing the economic state. Thus, these people might impede any regulations that might affect their interests. Decisions taken by organisations are shaped by those who bring their own interpretations to the decision-making process, thereby steering the way of thinking towards their own preferences and priorities (Chung and Luo, 2008; Ocasio, 1997). Meanwhile, it has been suggested that the decisions taken by organisations are largely governed by the power wielded by those who participate in the decision-making process (Greenwood et al., 2011). Therefore, because these people hold the highest positions in regulatory bodies, they bring their logics and prioritise decisions in a way that serves their own interests. Another explanation might be that these two logics might coexist because there is a historical agreement between the merchant family and the ruling family, where the ruling family should not intervene in business and how the merchant families manage their businesses.

Concerning the second question, there are a number of studies that have attempted to answer why some firms have formed a voluntary AC while others have not. However, these studies focused on developed countries (in the USA: Eichenseher and Shields, 1985; Pincus et al., 1989; Menon and Williams, 1994; in the UK: Collier, 1993; in France: Piot, 2004; in New Zealand: Bradbury, 1990; in Belgium: Willekens et al., 2004; in Australia: Chen et al., 2009). Additionally, most of these studies used the agency theory framework to reveal the determinants of the voluntary formation of ACs. However, the findings of these studies are mixed and inconclusive. The reason for this might be that these studies, by using the agency theory, which has as its central focus on the individual agent, assume that these agents always act in their own self-interest. The main flaw of such studies is overlooking the fact that each actor might define 'interests' in their own way (Schulze et al., 2001; Gomez-Mejia and Wiseman, 2007). They also overlook the fact that 'interests' are partially socially constructed, which denotes that each actor might be motivated in a different way from other actors depending on their social and structural positions (Miller et al., 2011). However, applying the ILP, which has not previously been applied to the study of AC, may give a clearer picture. According to ILP, individuals or firms act based on their socialisation to cultural norms and values within particular domain logics. A core premise of the ILP is the idea that both organisations and individuals' identities, assumptions, values and interests are embedded in predominant institutional logics (Thornton and Ocasio, 2008). Each of these institutional logics provides its own organising symbols, principles as well as practices impacting the behaviour of both organisations and individuals. Furthermore, different actors and organisations might act differently based on the

institutional orders that dominate in a particular society. Firms might also act or behave differently depending on embeddedness in a particular institutional logic.

According to agency theory, it is argued that concentrated ownership and owner-management are negatively associated with the formation of ACs. However, this study suggests that this explanation is too limited, and it is more about the institutional logics that firms are embedded in. For instance, this study suggests that firms with concentrated ownership perceive the voluntary formation of ACs differently due to the institutional logics that dominate these firms. For instance, it is declared that parent companies ask their subsidiaries to form a voluntary AC based on the motivation of corporate logic. Family ownership is also considered to be concentrated ownership, but they decided not to form an AC because of the constraint of family logic. Furthermore, the findings revealed that family board members have better information than non-family board members within the same firm.

The findings suggest that the family, market, corporate and professional logics play a role in the decision of whether or not to voluntarily form an AC in listed firms. These logics differ in their power and effect. Some of these logics complement each other regarding the formation of ACs, whereas others conflict. This confirms one of the main arguments of the ILP, which views any context as being comprised of multiple logics which are accessible to organisations and individuals as bases for action (Friedland and Alford, 1991; Thornton and Ocasio, 2008; and Thornton et al., 2012) and often there is no single dominant logic but multiple logics competing for dominance, creating organisational fields more heterogeneous than homogeneous (Van Gestel and Hillebrand, 2011).

The findings suggest that the voluntary formation of an AC is primarily driven by the market, corporate and professional logics. Market logic affects the formation of ACs upon consideration of certain factors such as the cost and benefit of forming these ACs. The role of institutional investors through shareholder activism is another example of the effect of market logic. Also, some firms might form an AC with the aim of attracting these investors. Firms are motivated by market logic to form voluntary ACs with the aim of improving the status of the firm and its competitive advantage. Some firms formed an AC in order to obtain a rating from the credit rating agencies. To the best of the researcher's knowledge, no studies have previously mentioned that. Another example of improving competitive advantage is to increase disclosure and transparency. On the other hand, the findings suggest that market logic might also constrain the formation of ACs in small listed firms.

The findings indicate that corporate logic also plays a significant role in the formation of ACs in Kuwait. Corporate logic concerns managing the firm, the market position of the firm and its organisational culture. Some firms were motivated to form an AC to improve governance and established the AC with the aim of improving internal policies and procedures and increasing the oversight of executive management. Furthermore, the analysis suggests that some parent companies required their subsidiaries to form ACs. In addition, it is suggested that firms might form ACs because of their corporate culture. Examples include being responsible for shareholders, being a pioneer, being proactive and concentrating on the long-term benefits.

With regards to professional logic, the study shows that this logic is less influential than the other logics. The findings indicate that board members with knowledge and experience of ACs or who have been educated abroad might be more inclined to form a voluntary AC. This is consistent with Thornton et al. (2012) who stated not all social actors are fully embedded in or committed to prevailing institutional logics. In other words, institutional logic posits that individuals (actors) are not passive recipients but they are able to innovate and thus transform institutional logics. Furthermore, the findings reveal that the professional bodies (KAAA and KCCI) were very passive in promoting best practice in Kuwait and that the interest of these bodies is in social events without paying attention to professional aspects.

The study also suggests that family logic is the main barrier to the formation of ACs. This is because many listed firms are dominated by families. Although these firms are listed on the KSE, which is exposed to multiple logics (such as state logic, market logic, professional logic), the study suggests that family logic is the dominant logic. This is because the people appointed to prominent managerial and board positions are typically members of the controlling family or their close friends based on trust and loyalty. It is, therefore, understandable that these people will work together to serve the family's interests and not necessarily the interests of the other shareholders. Thus, because they trust each other, and they manage and own the firm at the same time, there is no need for an AC. The study of logics primarily concentrates on the institutions of professions and the market logic and has underestimated the role of the family (Miller et al., 2011). Thus, this study provides more insight into why family firms decided not to form an AC. The interview findings also confirmed that the family logic dominates in traditional societies (Thornton et al., 2012; Thornton, 2015; Friedland and Alford, 1991).

This study contributes to the institutional logics perspective by showing how the non-market institutions (state and family) influence the behaviour of corporate organisations and economic behaviour. Greenwood (2010) stated that little attention has been given to the influence of family, religion or state institutions on contemporary organisations. It is important here to mention that the ILP fails to take into account friendship and where this should be placed in terms of the different logics. The reason behind that might be that the ILP has been created in a western society. The fundamental notion of institutional logics is that there are several logics in each society that differ in importance and influence (Thornton et al., 2012). Thus, friendship might be not very influential in a particular society but may play a major role in another. Haniffa and Hudaib (2007) uncovered that GCC countries' societal structure increases cronyism and nepotism and leads to limited professionalism in most important institutions. In the Kuwaiti context, this study has revealed that the interviewees treat their friends in the same way as family members. In many cases in this study, the interviewees mentioned friendships and family in the same context and in the same sentence. From the interviewees' observations, it appears that the appointment of family members or their friends is considered to be the same in terms of loyalty and taking care of each other. This is because the family in Kuwait society does not only include the nuclear family but also immediate and distant relatives, neighbours and friends (Al-Thakeb, 1985). Furthermore, some of the interviewees believed that certain people in Kuwait have stronger relationships with their friends than with their family members. Al-Enzi (2017) also reported that many men in Kuwait depend on their friends in finding jobs more than on their family members. Therefore, family logic should be extended to include friendships as they have very similar principles. Examples of these similarities include

trust, loyalty to each other and taking care of each other. To the best of the researcher's knowledge, there is no other study that suggests friendship as a part of family logic. As the findings revealed an impact of friendship on the formation of ACs, the current study treated friendship as part of family logic, and consequently contributed to the ILP.

It is worth noting that, unlike neoinstitutional theory, ILP helps to explain both the homogeneity and heterogeneity of companies, owing to the fact that companies are rooted in distinct institutional orders, each of which has its own sense of rationality. It is also demonstrated how institutions both constrain and enable individuals and organisations. Overall, the findings suggest that the decision of forming voluntary ACs is dictated by market, corporate, state and professional logics that complement each other and drive individual firms towards the formation of ACs in the era before the foundation of the CMA and the issuance of the CGC. However, family logics act as a barrier for the formation of ACs in Kuwait directly as well as indirectly through their impact in the dilution of state logic, which was found to have little influence.

Chapter Seven: The Implementation Process of the Corporate Governance Code in Kuwait

7.1 Introduction

In 2010, the CMA was founded as a new and main regulator of the KSE activities. In 2013, the CMA issued and imposed the CGC, one of whose components was the AC. This code was the first to be applied to listed companies in Kuwait on a mandatory basis. However, the affected firms opposed, responded to and resisted the CGC. As a result of the response of firms, the CMA postponed the application and replaced the mandatory CGC with a new code based on the principle of "comply or explain." This chapter aims to explain how and why listed firms perceived, experienced and responded differently to the introduction of the CGC in 2013. Additionally, one of the aims is to analyse the strategies that firms used to respond regarding the old and new CGC. In addition, this chapter provides insight into the perceptions of the interviewees regarding the extent to which they believe that listed firms will implement the AC effectively. The ILP will be used to analyse and discuss the research findings. In other words, this chapter will analyse why listed firms, based on the prevailing institutional logics, reacted differently to the introduction of the CGC and ACs from the perspectives of the interviewees in this study.

In the following section, the recent evolution and reformation of stock exchange activities will be analysed and reviewed. The section after that will discuss how listed firms perceived and experienced the introduction of the CGC. This section will show and discuss why some listed firms perceived the introduction of the CGC as not incompatible with institutional demands. Then, it will be shown why other firms perceived it as incompatible with demands and how they responded to it. After that, the

collective responses of firms and the role of the KCCI will be analysed and the results of these reactions will be reviewed. Before the conclusion, the application of the ACs will be evaluated from the interviewees' perspective.

7.2 The evolution and reformation of stock market activities in Kuwait

Greenwood et al. (2011) state that the institutional complexity that faces organisations is determined by the structure of the organisational fields in which they are located. Thus, it is crucial to understand the structure of the field and institutional context in this study. Before the foundation of the CMA in 2010, there was no dominant regulator, and the regulatory authorities existing then (Market Committee and MCI), as shown in the previous chapter, were weak and incapable of enforcing their regulations, causing the listed firms to challenge or disregard them. Furthermore, the state and government were less interested in regulating the field. A clear example is that the commercial law was issued in 1962 and not updated until 2012[11]. There were no rules, regulations or codes for CG or the AC. Moreover, there were no regulations and recommendations regarding board composition or committees. In fact, it was permissible for one person to carry out the roles of both the CEO and chairman at the same time in a company. Simply put, there was no powerful regulator in the field to force or constrain firms'

[11]Borsuly (2007) argued that the company law was not strong enough since it was based on outdated economic conditions and the penalty was insufficient for those who breach the rules and law. For instance, the minimum penalty for insider trading activities is 10 Kuwaiti dinars (£26), while the minimum is 200 Kuwaiti dinars (£530). This shows the Law of Commercial Companies' shortcomings when compared with those in other countries.

behaviour. Thus, institutional influences and demands were exerted on listed firms through the institutional logics that firms and their members were embedded in. As discussed in the previous chapter, the institutional logics in play were the state, market, family and corporation logics.

In 2010, the CMA was founded as an independent regulatory body with the aim of unifying the regulation and supervision of the securities and capital markets in the State of Kuwait. According to the established law, the CMA is fully independent both financially and in terms of its work, with the ability to impose punishments and penalties. One of the aims of establishing the CMA is to reform the stock activities and introduce CG. Most importantly, the chairman of the CMA, Dr Nayef Al Hajraf, stated that the main aim of the CMA is to achieve the vision of the Emir of Kuwait, which is to make Kuwait the financial and commercial centre of the region (CMA, 2015). This can be achieved by improving the infrastructure of the capital market activities and the introduction of regulations.

In June 2013, the CMA issued a host of new rules and regulations aimed at imposing good CG and international best practice. This was the first CGC in Kuwait. This code consisted of eleven rules and was based on the mandatory principle. According to this code, listed firms must form five committees, namely an AC, risk management committee, nomination committee, remuneration committee and governance committee. It was proposed that all firms (listed and unlisted) under the supervision of the CMA should apply the code by 31st December 2014. It is apparent that the CMA sought to coerce firms to behave in a certain way by means of legal power. Commenting on this period and the introduction of the CGC, a regulator in the CMA said:

"We are in the process of applying not only what was stated in the code ...we are in the process of introducing a new culture." (REG2)

This behaviour is rational under state logic. Lee and Lounsbury (2015) state that the principle of state logic is to use a command-and-control framework based on a bureaucratic hierarchy and law to regulate organisational and individual activities. Under state logic, the basis of strategy is to increase the collective good (Thornton et al., 2012). This logic is associated with the principle that the political and economic interests of the state should be given priority (Dai et al., 2017). In other words, the aim of the CMA was to facilitate the accomplishment of national goals. Furthermore, from an ILP, it can be argued here that the CMA used state logic to enforce and institutionalise the CGC.

Pache and Santos (2010) stated that the power arrangements of field structures are not constant, but evolve with changes in culture and regulation, with external shocks, or with the introduction of new actors. After the introduction of the CMA and the CGC, it was expected that the field would go through evolution and transition periods that could create institutional complexity. Therefore, it is interesting to explore how listed firms perceived, interpreted, experienced and responded to the new institutional requirements. The following section provides the findings and discussion in this regard.

7.3 Firms' perception and experience of the new institutional demands

After the issuance of the CGC by the CMA, listed firms perceived and interpreted the introduction of the CGC differently. Greenwood et al. (2011) stated that organisations

face institutional complexity whenever they face incompatible prescriptions from multiple institutional logics. The conflicting institutional demands have been defined by Pache and Santos (2010) as antagonisms in the organisational arrangements that institutional referents insist upon. Furthermore, Pache and Santos (2010) and Greenwood et al. (2011) argue that when firms face similar conflicting demands, they experience them differently and, in turn, mobilise different responses. The next section will illustrate why some firms perceived and experienced the introduction of the CGC as conflicting institutional demands and thus experienced institutional complexity, while others perceived it as compatible.

7.3.1 Firms' response to the CGC: A compatible view

Not all firms perceived the introduction of the CGC in the same way. According to the interviewees, some firms did not experience the introduction of the CGC as being incompatible with institutional demands. Most of the interviewees believed that this was because the CGC was consistent with the institutional logic of their firms. Shipilov et al. (2010) argue that organisations that previously subscribed to a given logic are more prone to implement subsequent practices consistent with their established logic. In other words, the acceptance of new practices or demands depends on how consistent those practices are with the institutional logic within firms. The interviews suggested that a number of factors determined why some firms perceived the CGC as being a compatible institutional demand.

As mentioned in the previous chapter, some firms are cross-listed and deal with international ratings agencies and international creditors, and therefore they already had CG practices before the issuance of CGC in Kuwait. As such, these firms actually met

the new institutional demands even before the issuance of the CGC. A regulator in the CMA who was involved in issuing the CGC stated the following:

> *"Large companies, such as X and Y, did not object because they are cross-listed companies … These firms deal with international creditors, rating agencies … In order for these companies to have access to international creditors and obtain better rating from rating agencies, they should have corporate governance. Therefore, they already have had corporate governance practices"* (REG2).

This point of view is consistent with the argument of Shipilov et al. (2010) who state that organisations adopt practices primarily because they are not incompatible with the ones they adopted in the past. They found that an organisation's adoption of a first wave of corporate governance practices that are related to board reform practices primes the organisation for a later adoption of second wave practices.

More interestingly, a review of the ownership structures of X and Y revealed that these firms have family and state ownerships. Furthermore, Y also has an international institutional investor as one of its biggest shareholders, and each of these owners has board members representing its interests. Greenwood et al. (2011: 342) state that "actors 'represent' and import into an organization the meanings and norms of logic to which they have been primarily exposed." These board members may be differently motivated, as each of them represents a different group (state, family, institutional investors). Therefore, it can also be argued that these firms are hybrid firms, which may be defined as those incorporating elements of various institutional logics (Battilana and

Dorado, 2010; Pache and Santos, 2013; Battilana and Lee, 2014). In this situation, the hybrid form of ownership structure may be beneficial to the acceptance of the CGC.

According to the interviewees, state logic may play a role in how listed firms perceive the introduction of the CGC in Kuwait, as the state owns a large stake in many listed companies. For instance, it owns approximately 15% of the 20 largest listed firms on the KSE (KAMCO, 2012). The firms guided by the logic of the state are motivated to meet the requirements of governmental agencies, conform with state regulations and attain state goals (Dai et al., 2017). An independent board member confirmed this by saying:

> *"The state has an ownership stake in many listed companies, and it also has board members. Therefore, these companies tend to comply with government regulations. Consequently, these companies did not oppose corporate governance."* (ACCM)

This interviewee also stated that the philosophy of these firms is to follow and apply the state regulations because they are state-owned firms. Pache and Santos (2010) state that it is crucial to take into consideration the extent to which the various sides of the conflict are internally represented. Therefore, the state's logic, represented through its board memberships and ownership stakes, appears to influence the firms' acceptance of the CGC. This interviewee added a further critical point that may explain why some firms did not react against the code. According to this interviewee, many listed firms depend on government tenders. Therefore, they are inclined to follow the regulations issued by state agencies. According to the interviewee,

> *"these firms also might have a contract and tender with the government; therefore, it is not in their interest to oppose the state regulations"* (ACCM).

These quotations suggest that the state derives its power from three sources. The first and main source is ownership. Greenwood et al. (2010) argue that ownership is a crucial element that influences how firms experience and perceive institutional complexity. The second source of state power in these firms is board membership. Institutionalists (e.g., Pache and Santos, 2010; Greenwood et al., 2011; Greve and Man Zhang, 2017) argue that internal power (e.g., board membership) is crucial in the interpretation of institutional demands. The board members who represented the state in these firms may have played a role in convincing the other board members to accept the CGC. The third source of state power is government contracts and tenders. Pache and Santos (2010) claim that when organisations rely on important institutional actors for resources, they are likely to fulfil those actors' wishes in order to maintain access to those resources. Institutionalists (Pache and Santos, 2010; Greenwood and Hinings, 1996) believe that an organisation's experience with institutional requirements varies depending on the interpenetration of these internal and external pressures. Consequently, these firms did not oppose the introduction of the CGC.

Most of the interviewees held the view that one of the main reasons for many companies' rejection of the CGC was its cost (to be discussed later in this chapter). The interviewees believed, however, that, unlike small firms, large ones have the infrastructure (e.g., an internal audit department and adequate board members) to implement the CGC. Therefore, the cost of applying the code is affordable.

> *"Large companies had no problem applying corporate governance ... because they are able to afford the cost ... The corporate structure of these companies has the capacity to establish the required departments ... They also have an adequate level of expertise".* (KAAA1)

The interviews also suggested that corporate logic is a crucial factor in the acceptance of the CGC. One of the cornerstones of corporation logic is corporate culture (Thornton et al., 2012). The interviewees believed that the corporate culture of some firms is another reason why those firms accepted the CGC. One of the internal auditors stated that firms that seek to adopt the best international practices did accept the CGC, saying:

> *"Companies which are looking for best practices ... accepted corporate governance"* (INT1).

This interviewee added that the progressiveness of owners and board members was also an influential element in accepting the CGC introduction. It has been suggested that the decisions taken by organisations are largely governed by the power wielded by those who participate in the decision-making process (Greenwood et al., 2011). Because the main decision makers in listed firms are the board members and owners, these actors influence the acceptance of the CGC. A regulator supported this point view by stating:

> *"It mainly depends on the culture of the board members and owners ... I saw that there are some boards of directors who were very open minded to the introduction of CGC, while the others were not"* (REG2).

One of the interviewees mentioned a very interesting idea. The interviewee stated that some firms might perceive the introduction of the CGC as an opportunity:

> *"Some companies consider the code as an opportunity to improve their image in front of others .... especially after the resentment of many companies"* (ACCM).

This interviewee implicitly argued that some firms think outside the box by turning the introduction of CGC, which many firms perceived as a conflict, into an opportunity. This is because, as will be discussed later in this chapter, many firms rejected the introduction of the code and decided to delist from the KSE. Therefore, some firms might consider this to be a great opportunity to improve their image and reputation by showing their stakeholders that they are better and different than others. Under corporate logic, any behaviour or decision to improve the market position of a firm is rational (Thornton et al., 2012). Therefore, these firms might take this opportunity to differentiate themselves from other firms.

7.3.2 Firms' response to the CGC: An incompatible view

After the issuance of the CGC by the CMA, a great number of listed firms on the KSE rejected the code and reacted strongly against the CGC. A total of 20 firms decided to delist between 2013 and 2015.[12] These firms mentioned several reasons that led to this step, the main reason of which was the CGC. Some of these firms explicitly stated that one of the reasons was the application of the CGC, whereas others mentioned the following reasons: the decline in the market value of the company's shares, the weak level of trading in the stock, reduced costs by delisting and maintaining shareholder

[12] The number of listed firms by the end of 2012 was 216 (Boursa Kuwait, 2018).

funds (Alanba, 2015). However, the former CEO of Gulf Investment House, Bader Al Ali, claimed that these were not the real reasons and most of these companies did not disclose the actual reasons that led to their delisting (Argaam News, 2015). He believed that the actual reasons were the strong oversight imposed by the Markets Authority Law and their inability to meet the requirements of the law such as the CGC. The ex-CEO called the phenomenon of delisting "The Great Escape" from the close surveillance and resentfully perceived and unwanted requirements that they basically were not used to (*ibid*).

The interviewees believe that the main reason behind the rejection of the CGC is that the set of practice and institutional demands that the CMA aimed to institutionalise are in competition with the extant practice. In other words, the new institutional demands conflicted with the institutional logics (the family and market) that existed in the field. This is because the interests, values and assumptions of organisations and individuals are firmly rooted in the main institutional logics (Thornton and Ocasio, 2008). Moreover, each institutional order has its own practices, principles and symbols and it is these that govern perceptions of rationality and how reasoning comes about (Thornton et al., 2012). Therefore, organisations face institutional complexity whenever they face conflicting prescriptions from multiple institutional logics (Greenwood et al., 2011; Pache and Santos, 2010).

There are two aspects of institutional complexity: the number of logics in the field and the conflict between them (Greenwood et al., 2011). In the case of introducing the CGC, there are many logics that can be identified which provide incompatible institutional prescriptions. On one side of the conflict, the CMA embedded in state logic that sought

to introduce new institutional prescriptions (the CGC). On the other side of the conflict, the institutional logics dominate through culture embeddedness in the field such as family logic and market logic. Nordberg (2014) asserted that state logic gives rise to different norms to those of corporate logic. Similarly, those based on the market as an organising principle are different again. In addition, the logics employed by those operating a family-owned company may well be different to those applied in a large firm with many thousands of shareholders.

In general, the interviews suggest the new institutional demands (the CGC) conflict with the market and family logics. The following two subsections will discuss and show why the CGC conflicted with the market and family logics that many firms in the field were embedded in.

7.3.2.1 Market logic

The interviewees in this study believe that one of the main reasons behind this reaction to the introduction of CGC is market logic. According to Thornton et al. (2012), it is rational that organisations or individuals under the influence of market logic are driven purely by the calculation of costs and benefits of decisions or actions. There is a consensus among the interviewees that one of the crucial reasons behind the delisting step and rejection of the CGC is its cost. For instance, one of the interviewees stated that some listed firms tried to put pressure on the CMA to amend the CGC. One of the strategies that firms used was to delist as expressed by one interviewee below:

> *"Companies started to form a lobby as there is considerable cost associated with governance… some companies started to get out of the stock market because of the cost; the high cost of applying the Corporate Governance*

Code. They consider that this cost is not justified. That's why they started to form groups or some sort of lobby to put some pressure on the CMA. One method used to apply pressure by the companies was to collectively withdraw from the stock market. It was clear; in one day you would hear that seven or nine companies were getting out of the stock market. I think part of what happened was a political act by the companies trying to reduce the cost of applying the code" (ACCM).

This interviewee stressed that the main reason behind this reaction on the firms' part was the cost of implementing the CGC, which was not justifiable from their firms' viewpoint and which led to these firms' decision to delist from the market. One interviewee, who held the positions of chairman and board member in another listed company at the time of the interview, also supported this argument. This interviewee stressed that the associated costs of implementing a CGC that did not significantly improve operational efficiency was the main reason that firms resisted the first code; this was particularly true for small firms.

"Many companies think that it is not necessary for them to have these committees because they are not affecting their performance… they have a few activities, the employees are few, the volume of exchange of assets and liabilities and others is very, very, very limited... so why do you apply this to them?" (AC1).

According to this interviewee, the small firms believe the cost of applying the CGC outweighed its perceived benefits. This is because these firms have small business activities, a limited number of employees and only a small number of directors

(sometimes fewer than five). Thus, in order to apply the code, they would need to establish new departments such as an internal audit department or use outsourced internal auditors. From their perspective, this cost is unnecessary. Under the market logic any decision or behaviour to avoid extra cost is rational particularly when this cost does not lead to increasing the efficiency profit (Thornton et al., 2012). The same argument was mentioned by a partner of one of the Big Four auditing firms:

> *"Companies had rejected and objected to the application of corporate governance code in 2013. For many reasons, small companies believed that the application of the code on them was very expensive as some of these companies had a number of employees that did not exceed 10 employees. For example, some listed real estate companies had only two properties and the number of employees did not exceed 10 while the number of members of the Board of Directors did not exceed 5. So, when applying the code, such companies could have born the costs overstretched. Hence, they rejected, and 40 companies withdrew from the stock exchange" (EXT1).*

Therefore, from the market logic perspective, the conflict occurs with institutional demands because the institutionalisation of this practice would impose additional costs on listed firms. Greenwood et al. (2011) contend that pressures which stem from institutional complexity do not affect all firms in the same way and the firm size is one of the factors that determine how the firms perceive institutional complexity. This argument is supported by the fact that the market value of companies that have delisted from the KSE does not exceed 3% of the market size of approximately $100 billion

(Al-Arabiya News, 2015). This indicates that small firms experienced the complexity more intensely than other firms.

Moreover, what also supports these interviewees' argument is the admission by many firms that the main reason behind their decision for delisting was the cost of applying the CGC. For instance, the CEO of Ikarus Petroleum Industries, which decided to delist, said: "*For the corporate governance code to be applied by the CMA on companies will add financial burdens on those companies of up to 300 thousand dinars annually*" (CNBC Arabia, 2016).[13] In addition, the vice chairman of Metal & Recycling stated that "The board of directors of the company decided to delist from the stock market because of the high costs of applying the CGC" (Alanba, 2014).

Furthermore, Jasim al-Saadoun, the Chairman of Al-Shall Consulting & Inv. Co. holds the same position as these interviewees, arguing that the main reason why many firms are listed is to help companies borrow money at the lower cost and to improve liquidity (Al-Arabiya, 2015). However, when the cost of listing exceeds its benefits, it is reasonable that these firms withdraw from the market. The findings in this section revealed the scale of the dispute between the new institutional demands and the market logic that many firms were embedded in. Under market logic, any decisions made to avoid extra costs are rational, especially when they believe that the cost does not improve efficiency or add value to them.

These findings reinforce and are consistent with the finding of the previous literature which found that small firms are more affected by the introduction of the mandatory

[13] 300,000KD= 712093 Pound

code (e.g. Coates and Srinivasan, 2014; Small et al., 2007; Piotroski and Srinivasan, 2008; Levy, 2010; Hostak et al., 2013). These studies find that some small firms delist or go private as a response to the introduction of the mandatory code.

7.3.2.2 Family logic

The interviewees in this study believe that family logic is a major reason behind the rejection of the institutionalisation of the CGC. Greenwood et al. (2011) state that ownership structure might affect how firms perceive and experience institutional complexity, which in turn influences the firms' responses. It is worth mentioning that more than 60% of the ownership of the delisted companies is concentrated in the hands of one family or group (Al-Arabia, 2015). Unlike the non-family firms, family firms' behaviour differs since they also have to take into consideration the norms, values and goals of the family (Lansberg, 1983; Reay et al., 2017). Under family logic, family members make all important decisions, family tradition drives decision making, and the firm aims to benefit family members (Reay et al., 2017). This type of firm is also more concerned about keeping control over the board and the firm. Many interviewees believe that the family firms perceived and experienced the introduction of the CGC more intensely than other firms. Most of the interviewees hold the view that one of the most important things that the family firms and owners object to is the introduction of an independent member. For instance, a chairman and AC member explained why firms oppose the CGC with regards to the independent member in the following excerpt:

> *"With an independent member, any decision at the level of the board of directors shall be made only in his presence and with his signature... For example, I own a big stake and they [the independent member] have a reservation about me; so, I cannot get involved in*

any deal for this reason, especially since many companies are listed but at the end they are family businesses. The legislator is not aware of some things. This means that the role of the independent member is too large" (AC2).

One of the ex-chairmen of KAAA supported this point of view and stated:

"Most companies in Kuwait are family companies, although they are listed companies, and this {code} places a heavy burden on them to have someone oversee their business" (KAAA2).

This is another and very clear illustration that explains how a firm or an individual under the influence of family logic perceived the CGC and why they reacted strongly against it. Furthermore, Greenwood et al. (2011) posits that attributes of the organisation (such as ownership) can make it especially sensitive to particular logics and less so to others. In other words, the imposition of this institutional demand by the CMA triggered a conflict with family logic. This is because the means-ends and organising principles of the CGC are incompatible with the family logic that many listed firms and their members were embedded in. Simply put, the goals and means that the family logics provided are in direct opposition to what the CGC stands for. For instance, the CGC conflicts with family logic regarding how firms should be managed and the method of appointing board members, especially independent members, which they interpreted as a stark intervention in their work. This is because the principles of family logic are based on trust, loyalty, control and privacy which are at odds with the principles of the CGC that aims to improve governance, transparency and the role of independent members.

One of the factors that influence how firms experience, perceive and respond to institutional demands is whether the new institutional demands conflict over means (functional level) versus goals (ideological level) (Pache and Santos, 2010). The degree to which the institutional demands are negotiable can be predicted by distinguishing whether it affects the firm on a functional or ideological level; conflicting demands on a functional level are more negotiable than those that affect a firm's goals. Although it could be argued that the introduction of the CGC is considered a conflict over means, what matters here is how the firms and their board members perceive it. One regulator provided an interesting and clear example of how family members perceive and interpret an independent member:

> *"A chairman, aged 60 to 65, came to me and said: 'who do think you are that you bring someone from the street to manage my money? ... You can do that when it becomes your money' ... they do not want anyone to interfere in them" (REG2).*

The above excerpt demonstrates how the decision makers within firms interpreted the introduction of the CGC. Furthermore, it provides a clear example of the clash between the members, which is highly embedded in family logic with the new institutional arrangement. This also illustrates that the older generation members of family firms who are embedded deeply in family logic perceive and experience institutional complexity to a great extent, which is in line with the widely held belief that older people are more resistant to change (CK Chiu et al., 2001; Islam et al., 2010; Kunze et al., 2013; Pogson et al., 2003; Van Dalen et al., 2009; Weiss and Maurer, 2004). Actors represent and bring into organisations the norms and meanings of institutional logics that they have been predominantly exposed to (Greenwood et al., 2011). Moreover, institutional demands and prescriptions are conveyed into firms by actors interpreting

those demands (Greenwood et al., 2015). Thus, if actors interpret these demands as a threat to the institutional logic they are embedded in, they will challenge these institutional demands. Further, it is clearly shown how the family members in listed family firms treat the firms they dominate and the other minority interests. They treat the company as if it were private and not listed, and do not take into consideration the interests of other shareholders. Therefore, these individuals under the influence of family logic perceive the introduction of the CGC as a conflict over goal. In simple terms, these individuals believe the main aim of the firms is serving the family's interest and wealth while the main aim of the listed firms should be serving all shareholders' interests, which make them regard the CGC as an obstacle in the face of their goal. Due to the incompatibility of some demands with the prevailing institutional logics, it appears that compliance is difficult to attain because satisfying some demands might be at the expense of others (Pache and Santos, 2010; Greenwood et al., 2011). Therefore, these firms perceive this code as a stark intervention in the way they work and their privacy because they manage the firms based on family logic, but the code might affect this.

Given the way some firms perceived and experienced the introduction of the CGC, it can be argued that the firms' response to conflict demands is not solely a matter of the formal ownership structure (Pache and Santos, 2010; Greenwood et al., 2011; Greve and Man Zhang, 2017). Institutional theorists argue that the power within the firms is a very crucial element to determine the firm's response to conflicting demands. For instance, Greve and Man Zhang (2017) state that ownership offers formal control rights over a firm (external power); however, exercising those rights needs the backing of an internal representation on the board of directors and management (internal power).

Greenwood et al. (2011) also argue that some groups within an organisation are more powerful than others. Consequently, organisational responses to multiple institutional logics are likely to reflect the interests of the most powerful group.

Although these firms are listed and have other minority non-family shareholders, what is important here is who has internal representation and holds the power of decision making. These minority shareholders lack internal representation because the board members are typically family members or friends. Someone might argue that the minority shareholders may be able to participate in decision making through the general assembly, but it is very important to stress two matters. First, the nature of minority shareholders in Kuwait is that they are passive investors (KUNA, 2016). Secondly, when a single shareholder or family owns the majority of the shares, the participation of other shareholders is ineffective. One of the portfolio managers who attended many general assemblies explained how these types of firms treated minority shareholders when they tried to participate in the general assembly:

> *"The board of directors has a reaction to the shareholder who exercises his role in the general assemblies… They seek to alienate the shareholder from the general assembly; they try to close the discussion quickly and ask the shareholder how many shares they have in order to reduce the importance of his question and marginalise his role" (PORT1).*

Furthermore, Gulf Investment House's former CEO does not believe that the decisions to delist were taken in the interest of shareholders. Indeed, he does not think that the opinions of minority shareholders were even considered. Rather, he argues that the

decision to delist lies with the board of directors with final approval from the general assembly, which is often in the control of a company's largest shareholders (Argaam News, 2015). Therefore, the internal power within these firms is dominated by the family while minority shareholders are not represented. In other words, the external power (family ownership) is backed by the internal power (e.g. board members and top managements). Pache and Santos (2010) also posit that when organisations perceive the demands as a conflict over goals and only one side of the conflict is internally represented, they are likely to resort to avoidance strategies. One of the tactics of an avoidance strategy is to escape institutional influence by exiting the domain in which the pressure is exerted. As explained earlier, family firms perceive the CGC as a conflict over goals and the family members dominate the internal power of firms. Hence, these firms' resort to the delisting option is justifiable.

7.4 The collective responses of the firms

Firms started to lobby and synthesise their efforts against the code and the CMA by complaining and lobbying the KCCI, asking them to intervene to find a solution to this issue. This is because the KCCI is considered the representative of firms' and owners' interests (firms pay a fee to become a member of the KCCI). Furthermore, the KCCI board members are at the same time big shareholders in many listed firms and they have very strong political and economic power (as shown in the previous chapter). Therefore, this body is motivated by the influence of market and family logics. This is because the board members are businessmen who own either a family business or participate on the boards of firms. Moreover, the KCCI board of directors are elected by KCCI members every four years. According to KCCI law, commercial, industrial and financial institutions must join the KCCI in order to practise their business. Thus,

the KCCI should defend and protect its members' interests. Therefore, the market and family logics that guided the KCCI and listed firms reinforce each other. These two institutional logics are incompatible with the new institutional demands (the CGC) introduced which is supported by the state logic.

The KCCI started to play a role in this regard at the beginning of 2014. According to an official in the KCCI, in the beginning, the KCCI did not pay much attention to the code:

> *Honestly, we as the KCCI, did not pay much attention to the decision… until the companies came and protested to us that the one who set the corporate governance code did not give room for anybody to breathe…Companies have written to us claiming that they cannot apply the code… And that there are defects relating to such and such and will cost us financially… We started to become concerned about it" (KCCI).*

The interviewee declared that the KCCI always prefers to do the job quietly. Put differently, the KCCI prefers to achieve their work out of public view in the 'backroom':

> *"Our work usually does not have a loud story; the work of the KCCI should be quiet … We realise that we are 50 years old and even before the constitution. We asked for a meeting with the Board of Commissioners to discuss this issue" (KCCI).*

These confident words might give a number of impressions and indications. First, the organisational profile might play a significant role in the determinants of organisational responses to conflicting institutional demands. In the case of the KCCI, its prestige, age and maturity determine the ways in which it works (quietly).[14] Most importantly, the KCCI trusts its power and ability to change matters in a quiet way and it believes that the CMA recognises this power. Moreover, the quotation above suggests that there might be many rule changes and compromises that have been agreed without the public's knowledge. It also indicates that cognitive factors (previous positive experience) might play a role in this response.[15] In other words, previous positive experience with a particular type of response increases the likelihood that this response will be used again in the future (Westphal and Zajac, 2001). Also, the KCCI might have employed this method because it is less costly in terms of the time and effort.

Furthermore, the above quotation gives an indication of how the multiple competing logics (in this case market, family and state logics) have peacefully coexisted. This is because these different actors (the government and the KCCI) are guided by different competing logics. On the one hand, the KCCI and firms are primarily motivated by and under the influence of market and family logics. On the other hand, the government is guided by state logic. The coexistence of these conflicting logics happened through the negotiation between these actors (e.g. government, firms and KCCI). Reay and Hinings (2009) stated that a small number of researchers have recognised circumstances where contesting logics were sustained to co-exist for a long period (Marquis and Lounsbury

[14] The KCCI was founded in 1959 and The Constitution of Kuwait was created 1962.

[15] Pache and Santos (2010) stated that cognitive factors may be taken into account as determinants of organisational responses to conflicting institutional demands. They give the past experiences as an example of the cognitive factors.

2007; Reay and Hinings 2005; Lounsbury 2007), but these studies do not offer explanations for the way that co-existing logics are continued.

The KCCI formed a team to meet the CMA to discuss the CGC. According to the interviewee, this team consisted of the highest level of the KCCI: "five board members", not the junior managers. This was to show that this topic was of critical importance. The interviewee stated that the CMA should have understood the message from the level of the team. The aim of the KCCI was to hold a number of meetings between the KCCI and the CMA to discuss the disputed matter and reach a compromise:

> *"We told them, please understand us, we are with you, we support you, and you know that we were among those who participated in the development of the [CMA] law. We were also among those who called for establishing the body. We are happy with your existence... We do not want to refer this issue to politicians…... It is purely a technical matter. We suggest sitting down together, two from your side and two from ours" (KCCI).*

It is apparent that the KCCI used some form of a padded threat that if the CMA did not consider their request, it might be escalated. The KCCI expected that the CMA would understand this request or at least give it due attention and think about the request. According to one of the team who issued the code, however, the board commissioners were opposed to any change in the code:

> *"Those who were in charge of the Authority were totally rejecting any amendment" (Reg2).*

Thus, the CMA responded only one or two business days after the meeting and stated that it had issued the code according to law and if anyone had any suggestions regarding the code, they could submit them via the website. According to the KCCI official, the following quotation was the CMA's response:

> *"They {CMA} responded that the code was issued according to law and article ... And we {CMA} explained it to everyone who needed it and published it on our website… and if you need any requests or amendments, submit online… and if you have anyone who wants to learn, send them to us" (KCCI)*

When one of the officials at the CMA was asked why the board of commissioners responded in this way and rejected any amendment of the code, the interviewee stated:

> *"They {commissioners} live in an ivory tower and they think that since I am the CMA that means I am ordering the people and they must obey my orders" (REG2).*

This response reveals the beliefs and mentality of the board of commissioners at that time and indicates that the board of commissioners were deeply embedded in state logic. This may be because they thought that the CMA foundation law gave full independence and they were above being challenged. Thus, they believed that there was no higher authority than themselves.

What is important here is that the KCCI perceived this response in the following way:

> *"We understand that this answer, apart from its lack of diplomacy, is like a reply from the members of the National Assembly and means that no one can challenge me. I am a supervisor. I do not deal with you" (KCCI).*

This response angered the KCCI and the conflict escalated between the KCCI and CMA. The political and economic reputation of the KCCI's chairman and board members means that they are able to change rules or regulations that are against their interest. Thus, in this case if they had not reacted strongly against this response by the CMA, this could have been seen as weakening their prestige and reputation and perhaps making them vulnerable to other laws. As illustrated in the previous chapter, the KCCI board members and leaders are very influential, especially the chairman. For instance, when asked about the power of the KCCI's chairman, an official, interviewed for the purposes of this study, described it as a ruler's power saying: "he is a ruler". What this interviewee implied was that the KCCI's chairman had the power to change anything. Thus, again the organisation's profile and prestige as Pache and Santos (2010) suggest might determine the type of response.

Consequently, in March 2014, the KCCI issued a statement for the first time in their history and published it on the front page of all newspapers. The KCCI paid the newspapers to publish the statement in which they attacked and strongly criticised implicitly and explicitly three main areas: the CGC, the CMA foundation law and the board commissioners. The KCCI's strategy clearly switched from compromise to the more aggressive strategy of defiance. This strategy refers to the explicit rejection of at least one of the institutional demands in an attempt to remove the source of conflict

(Pache and Santos, 2010). According to Oliver (1991), one of the ways to exercise a defiance strategy is by directly attacking or denouncing the institutional demands. The KCCI used this strategy to try and remove the conflicting materials in the CGC.

In this statement, the KCCI reviewed and reminded people of their roles and support for the establishment of the CMA and continued support in the coming years. Then the KCCI implicitly criticised the behaviour of the board commissioners towards firms under the CMA's supervision. For instance, the KCCI criticised the commissioners' understanding of the meaning of independence:

> *"Since the beginning of the efforts to establish the CMA, the Chamber has supported and participated in these efforts. The KCCI has declared positions supporting the CMA's works, emphasising its appreciation of the Board of Commissioners' achievements, calling for full respect for CMA's independence and protecting it from all kinds of pressures. However, independence does not mean isolation…The CMA must consider companies as a condition for its existence… Therefore, the relationship between the CMA and firms should be a relationship based on trust enhanced by oversight, not based on oversight that stems from suspicion"* (KCCI Statement, 2014).

The KCCI criticised various components of the code, including the methodology the CMA used for creating the rules; these rules had three main characteristics; strictness, amplification and compulsion.

Regarding amplification, the KCCI argued that the code was too detailed and complicated as compared to other countries; the code was 115 pages long, contained 32 principles and was divided into 11 rules. More importantly, the KCCI compared the number of committees required in the code issued by the CMA to the codes issued in other countries. The KCCI statement noted that the KSA, Jordan, the UAE and Egypt required a minimum of two committees, as opposed to the code in Kuwait that required five committees. This suggests that the KCCI wanted the CMA to follow the examples of these countries regarding the number of committees to be founded.

The KCCI argued that the first evidence of strictness is the abundance of detail. Moreover, they stated that further clear evidence of strictness is that the CMA considered the code to be effective from the date of its issuance. In other words, the CMA did not allow any time for transition.

Regarding compulsion, the KCCI stated that the CGC should be based on the principle of 'comply or explain' and not be mandatory. The KCCI used some countries in the region (e.g. the KSA, Bahrain and Egypt) and the UK as examples of countries that follow this principle. Furthermore, the Chamber criticised the fact that the CMA did not take into consideration the two main principles when making the code. These principles are appropriateness and gradation. Concerning appropriateness, the CMA treated all firms in the same way. The KCCI claimed that the CMA ignored that there is considerable variation in terms of firm size, the nature of their work, importance and peculiarity. Thus, the CGC cannot be the same for all firms. Simply put, they argued that one size does not fit all. The second principle is that the CMA should apply the CGC gradually. Moreover, the KCCI stated that the cost of applying the code was high

for many firms. In turn, they argued that this might lead to some firms delisting and might also prevent others from listing on the market. Looking from the ILP standpoint, it is apparent that the KCCI used market logic to justify their rejection of the code. As market logic concerns the cost and benefits behind any decision making or adoption of any practice, the KCCI believed that the cost of implementing the code was beyond the capacity of many firms; therefore, its implementation would cause the firms to delist and prevent others from listing. The KCCI point of view is in line with previous literature; for example, the number of firms that went private (Engel et al., 2007; dark Leuz et al., 2008) increased dramatically as a result of the introduction of SOX. Furthermore, Piotroski and Srinivasan (2008) found that small firms preferred to list in UK exchanges in the post-SOX era.

According to one of the regulators in the CMA, firms used the cost of the application to support their argument. However, this regulator believed that this was not the actual reason for their rejection of the code. The interviewee revealed that one of the firms admitted that the reason behind this position was not the cost because the cost was "zero":

> *"At first, this is their argument. One of the biggest companies told me that they used it as an excuse... He said: 'the cost of code implementation is zero,' and it is assumed that the cost for application of the code is large for large companies"* (REG2).

From the interviewee's perspective, listed firms used market logic to support and justify their point of view. Essentially, the new institutional demands conflicted with family logic.

Having said that, the perception of this interviewee might not be cogent for a number of reasons. First, it might be that the cost of code application for large companies is low because they already met the requirements (e.g. the internal control department and sufficient board members) before the issuance of the code. Conversely, small firms did not have this in place, thereby making compliance costly. Another possible interpretation is that market logic and family logic work in tandem against the new institutional demands imposed by the state (the CMA).

From the perspectives of the interviewees in this study, the reaction of the firms was understandable. More importantly, a number of the interviewees agreed with some of the viewpoints raised by the KCCI and the firms. For instance, the following quotations are from some of the interviewees:

> *"The change in humans cannot happen overnight; we cannot go from zero governance to the highest degree of governance, causing the reaction and costs of companies and investors. So, it has to be applied gradually and has to be applied in stages and preceded by awareness campaigns to be accepted smoothly" (EXT1).*
>
> *"I honestly agree with the companies.... the CMA did not take the subject step by step but chose a rather extreme option. Corporate governance should be taken gradually over the years. You cannot change everything in a day. You cannot decide that tomorrow we will fix everything ... you have to give them time ...because they have an impact and there must be awareness, courses and many things" (EXT2).*

"I think the legislator did not read the market well for two reasons… The first is a culture in which the local culture must be taken into consideration. I think the graduation in the application was something that was needed" (AC2).

One of the ex-market committee members attributed the resistance to a number of factors. First, the timing of the application of the code was inappropriate because the stock market was still suffering from the effects of the financial crisis. Furthermore, the interviewees criticised the CMA because they imported a very modern model (e.g. SOX) and applied it fully and suddenly:

"The problem with the code was that they wanted to apply a code like that of the USA and continental Europe, strictly and costly. It's like moving from level zero to the third level without passing levels 1 and 2; this is the shortcoming in the law… it should be step by step; here the resistance occurred… In 2013 there was huge resistance and especially in early 2014… I think even the KCCI for the first time in my life issued a statement in the newspapers" (REG1).

The interviewee also criticised the CMA because they did not take into consideration the uniqueness of the Kuwaiti market:

"The customs, traditions, styles and attitudes that exist in the market; it is a necessity to bear these elements in mind, so you will not have resistance" (REG1).

In general, the interviewees argued that it is reasonable for firms to resist change because introducing a new culture into the field should be a gradual process. Put another way, the timeline in the application is crucial in order to make the process of institutionalising new arrangements peaceful. This is especially true when the potential adopters have been embedded in institutional logics (e.g. family logic), which are incompatible with the new institutional demand, for a very long-time. As Raaijmakers et al. (2015) assert potential adopters may experience considerable institutional ambiguity owing to the lack of fit with pre-existing arrangements. For example, they maintain that when a desired change is inhibited by previous institutional commitments, the change process will be lengthy, if it occurs at all.

One of the accounting academics in Kuwait University mentioned a very critical reason why the reaction happened:

> *"You should keep in mind that the market is dominated by traders or approximately 6 - 7 families. This law must be in line with the interests of these families or people who dominate the market and, therefore, in case if the state imposes laws or controls which conflict with their interests... They will not accept it" (ACCA).*

This quotation illustrates the powerful family logic that existed in the field. From the interviewee's point of view, the regulator should take into consideration the interests of the influential families. Furthermore, this interviewee believes that these families will resist any law that may affect their interests. It is worth noting that the KCCI, which is embedded in the family logic, has paid considerable attention to the definition and role of independent members since the latter could have an impact on the interest of influential families. The KCCI's statement discussed and critiqued the whole definition

with more emphasis on the degree of kinship. For instance, the code states that an independent member should not be a first or second-degree relative:

> *"This deep and clear suspicion of the influence of kinship on the positions and decisions of the board members reflects a harmful separation between the code and the nature of Kuwaiti society, which has many other links than kinship ties and perhaps even stronger ones in some cases"* (KCCI, Statement).

Again, this is an obvious illustration that the conflict arose here because of the conflict between the new institutional demands and the interests of merchant families. Hence, the main concern of the firms and the KCCI's reaction were motivated to defend the family logic that they are rooted in**.** This is because the second-degree of kinship in a society like that of Kuwait is characterised by tribal and familial society, is insufficient and is considered to be non-independent. Also, it is clear that the KCCI sought to temper the requirements as much as possible. This also confirms the argument that family logics are generally more influential in traditional societies (Thornton, 2015).

The interviewees in this study argued that the definition of independent members should be expanded instead of being narrowed. This is due to the fact that in Kuwait and other GCC countries, the concept of family exceeds one's understanding of a nuclear family to include all tribe members (Torstrick and Faier, 2009). Very unexpectedly, when the interviewees were asked about their opinions of the definition of the independent member in the code, no one knew the definition, not even chairmen or board members. After they read the definition during the interviews, hardly any of the interviewees in this study agreed with the viewpoint of the KCCI. The interviewees

criticised the definition describing it as very weak. Furthermore, most of the interviewees believed that the definition of the independent member should cover at least fourth-degree relatives. The interviewees argued that because family relationships are strong in Kuwaiti society, the second or even third relative should still not be considered independent. The following are some citations from the interviewees in this regard:

> *"I disagree with this definition. An independent member should not have a financial interest, but the law allows a maximum of 5%, and in this case such a member becomes a stakeholder; so, the independent member must not have any shares in the company. Also, excluding the first-degree kinship is not enough. It is very simple and must cover at least the third-degree kinship" (EXT1).*
>
> *"I think the code states excluding the second-degree kinship, but it should extend to excluding the fourth-degree kinship" (EXT2).*
>
> *"I think even the fourth-degree kinship (laughs) should be considered non-independent in Kuwait because we are a society whose relations are intertwined" (ACCH).*

These quotations demonstrate the strength of family logic in Kuwaiti society. Therefore, reducing the requirement of independent members to exclude only first-degree relatives may sustain and strengthen the influence of family logic in the field.

After the KCCI's statement was issued in March 2014, the clash between the KCCI and CMA escalated dramatically. The KCCI used and devoted their political power to put pressure on the CMA and, especially, on the Kuwaiti government. One way in which

they did so was to discuss the CMA law in the Kuwait National Assembly. It is worth noting that the Kuwait National Assembly is the highest legislative authority in Kuwait. Furthermore, it is crucial to mention that any amendments to the CMA Law can only be done by the Parliament.

Parliament members started to question the performance of the stock exchange and the role of the CMA. Just one week on from the publication of the statement on the 18th of March, members of the Parliament asked to hold a special session to discuss the status of the CMA. Several Parliament members, including those who asked for this session, had shares in various companies and some were board members in companies subject to the supervision of the CMA. Looking from the ILP lens, it can be argued that members of the Parliament should be motivated and guided by state logic and prioritise the interest of the state. However, these members of Parliament are influenced and guided by market and family logics. This is a good illustration that shows the dominant power of family logic in this context.

In March 2014, the Minister of Commerce and Industry held two meetings involving both the KCCI and the Board of Commissioners of the CMA in order to reach agreement (Alwatan Newspaper, 2014). The minister's behaviour is rational and consistent with the state logic because the source of legitimacy for this logic is democratic participation (Thornton et al., 2012). One of the KCCI negotiation teams stated the following:

> *"No doubt he {the minister} was trying to break the ice but when the glass breaks, no matter how skilled you are, you cannot fix it like it was previously. It will not be as pure as before" (KCCI).*

This statement reveals how the KCCI decided to move from compromise strategies to defiance strategies. One day after this meeting, several members of the National Assembly suggested a number of amendments to the CMA Law (Kuwait National Assembly, 2014). One of these suggestions was that the tenure of the Board of Commissioners of the CMA should be reduced to four years instead of the current five-year period. In this case, the tenure of the CMA board commissioners would come to an end in September 2014. Another critical and interesting suggested amendment was related to the independence of the CMA. Under the first CMA law, the CMA was fully independent, and no ministers could intervene in their work. In this case, Members of Parliament were not authorised to question the Prime Minister or his cabinet in relation to the CMA. As such, the CMA was free from political influence and pressure. The first reaction was that one of the Board of Commissioners resigned after the KCCI statement. One of the former regulators who had a good relationship with this commissioner member revealed that the reason behind the resignation was that this member felt no one supported their viewpoint.

As a result of the pressure applied, on the 30th of April 2014, the CMA decided to postpone the application of the CGC until 30th June 2016. It can be seen that the CMA was trying to ease the severity of the conflict with the KCCI but by this stage it was too late. It seemed that the KCCI wanted more than this. In June 2014, the National Assembly discussed the suggested amendments to the CMA Law. The discussion of all the suggestions was postponed to a later date, apart from only one amendment that was discussed and approved. This amendment concerned the tenure of the board commissioners being four years instead of five years. Thus, the board commissioners

were to finish within three months. It was clear that the aim of this amendment was to remove or dispose of the head of the commissioners, Saleh Al-Falah. In August the new board commissioners were assigned. This can be seen as a strategy of manipulation employed by the KCCI. A strategy of manipulation refers to the active attempt to change the content of institutional demands and influence their promoters (Pache and Santos, 2010). According to Oliver (1991), there are three specific manipulation tactics that organisation may follow: organisations may attempt to co-opt the sources of institutional pressures in order to neutralise institutional divergences, to have an impact on the definition of norms through active lobbying, or, more radically, to manage and control the source of pressure (Oliver, 1991).

Moreover, the Minister of Commerce and Industry was interpellated in December 2014. One of the items that he was interpellated about concerned the CMA, more specifically, the "collapse of trading on the KSE and the violations of the CMA." The result of this interpellation was that a number of recommendations were made. Among these recommendations regarding the CMA were the government's commitment to submit amendments to the CMA Law during the period specified by the National Assembly, a commitment to the non-violation of the constitution and laws. Accordingly, the CMA was obligated to submit its budget for the past four years and all future years to review appointments in the CMA. This interpellation sought to put more pressure on the minster and government to achieve the request of the KCCI.

This conclusion was reached because the minister had no power to change anything at the CMA according to the foundation law of the CMA. Again, the minister received another formal interpellation from another Member of Parliament in March 2015. The

timing of this interpellation was very suspicious. This was because the Parliament was to discuss the amendments to the CMA Law on 25th March. Furthermore, this minister had taken a tough stance against amendments to certain articles of the CMA Law (CNBC Arabia, 2015). Most importantly, this minister opposed the essence of the proposed amendments, especially in terms of the independence of the CMA (Alraimedia, 2014). Additionally, the minister formed a committee to review the CMA Law and the proposed amendments. The recommendations of this committee were diametrically opposed to the aims of the KCCI group. Thus, this interpellation might be interpreted as a threat to the minster to agree with the proposed amendments. Another interpretation is that the aim of this request was to push the minister to resign. The minister decided to resign before facing these questions. The National Democratic Alliance, to which the minister belonged, commented that the reason for the resignation was the government not exerting serious efforts to achieve real reforms, prevent corruption and support the minister. Further, one of the previous Members of Parliament commented on this resignation describing it as a confirmation of the intensification of the conflict of power and money (Alarab Newspaper, 2015).

It is important to mention that this Parliament was considered one of the weakest parliaments in Kuwaiti history in terms of interpellations and the oversight of ministers. This is because the opposition did not participate in the election process. Furthermore, this Parliament was dominated by the President of the National Assembly, the son of the chairman of the KCCI. Interestingly, five parliamentarians resigned because they were prevented from using their right to question the ministers, and also because of the dominance of the President of the National Assembly. Historically, the Ministry of Commerce and Industry was considered the ministry subjected to least interpellation.

In the ministry's history, ministers have received only four interpellations, three of which came in this Parliament (National Assembly, 2017).

It seemed that the KCCI was determined to control the whole decision-making process with regards to the CMA. What supports this argument is that succeeding ministers had a very strong relationship with the KCCI. The acting minister of the Ministry of Commerce and Industry was an ex-board member of the KCCI. In May 2015, a new Minister of Commerce and Industry was appointed. The new minister was the director of the legal department in KCCI. Again, this illustrates that the KCCI used the manipulation strategy and, by interpellation of the minister, aimed to control the source of pressure.

7.5 The result of the conflict

As a result of these conflicts, it was clear that the KCCI won the battle. In March and April 2015, the Parliament discussed and approved the amendments to the CMA law. In general, the amendments were in agreement with what the KCCI had wanted. For instance, before the amendments, the law stated that the financial resources of the CMA should be derived from the fees determined by this law and its regulations and should be collected for the CMA's account. Further, any other resources of the CMA can be obtained from the revenue of its activities or the investment of its reserves. To this statement was added: "and the budget allocated by the State." After this amendment, the CMA has become financially dependent on the government which, in turn, implies that the CMA is not fully independent. Moreover, the CMA should submit its financial statement to the Ministry of Commerce and Industry, and the State Audit Bureau must be allowed to audit the work of the CMA. Finally, the Minster of Commerce and

Industry is responsible for the work of the CMA. This means that the minister can be questioned by the members of Parliament about the work of the CMA. The aim of this change appears to be the use of Parliament's power to compromise or question the minister if a conflict arises again. Accordingly, the CMA board commissioners know that their work is susceptible to intervention. In other words, the power and authority of the CMA was reduced and restricted after it achieved full independence, showing how the responses of firms and the KCCI to institutional complexity reshaped and tempered the authority and power of the new player (CMA).

With regards to the CGC, the CMA issued a replacement draft of the CGC in July 2015. The CMA stated that they took on board the opinions of all interested parties when they wrote this draft (CMA, 2015b). Under state logic, this behaviour is reasonable since the source of legitimacy is democratic participation (Thornton et al., 2012). It can also be argued that the CMA used democratic participation to increase acceptance of the code and reduce the negative reactions of the interested parties (e.g. firms and KCCI). Teixeira et al. (2016) showed that democratic participation reduces adverse reactions and facilitates the decision-making process towards acceptance of a CG structure at a cooperative organisation.

Having said that, when the interviewees (e.g. board chairmen, board members, KAAA chairmen, external auditors, the accounting department in a Kuwait university) were asked whether the CMA had sent them a draft or asked their opinion, most of them stated that they had not received any contact in this respect.

"We were not asked about the issue of governance ... it was proposed and applied without considering the point of view of the accounting

department or the finance department. Therefore, we did not have a complete idea about it… and we knew about it from the newspapers" (ACCA)

A few of them stated that they had been contacted just a few days before the draft was published. These interviewees believed that the CMA did not want their opinion but rather wanted to inform them about the draft.

"But it is actually not an opinion … actually, it was a formula and means in one way or another that this is what we will apply but as an opinion no they {CMA} did not take our opinion… But they may have taken the opinion of other government bodies but did not take our opinion"

Having said that, when a comparison was made between the old and new codes and the KCCI's statement, it was clear that the CMA took full consideration of the opinion of the KCCI. The biggest change was from the mandatory principle to the "comply or explain" one. Even the number of pages in the code was reduced from 115 pages to 43 pages in response to criticism made by the KCCI. Furthermore, the new version required only two committees to be mandatory: the audit and risk committees. Another change was the definition of the independent member, which changed the condition from excluding second-degree relatives to excluding first-degree ones. The table below shows some of the changes that have been made by the CMA alongside a comparison with SOX.

Table 7.1 The key differences between the Kuwaiti Code in 2013, 2016 and SOX.

	Proposed code issued in 2013	**New (current) code issued in 2015**	**SOX**
Approach	Mandatory	Comply with or explain, some mandatory elements	Mandatory
Mandatory committees	Five committees: Nomination, Remuneration, Governance, Risk and AC	Two committees: Risk and AC	Three committees: AC, Compensation and Governance
Independent members in committees	Committees shall include at least one independent member	Committees shall include one independent member at least	Committees shall be comprised entirely of independent directors
The Independent members in boards	At least one independent member, but independent members shall not exceed half the board	At least one independent member, but independent members shall not exceed half the board	The majority of the board should be independent
Definition of independent member	Is not related in the first or second degree to any of the BOD members or senior executives in the company or any other company within that company's group; is not a Board member in any company of its group or in any company that is part of its group; has not been an employee within the last two years or a party related to the company or any other company within that company's group, such as the external auditors and main suppliers, and has not had any controlling interests with any of those parties; and has not been an employee within the last two years of any legal persons who have controlling interests in the company	Is not related in the first degree to any of the BOD members or senior executives in the company or any other company within that company's group; is not a Member of the BOD in any company of the group; is not an employee of the company or any company in the group or any of the stakeholders; and is not an employee of corporate entities who own control shares in the company	Does not accept any advisory, consulting or other compensation from the company and is not affiliated with the company or its subsidiaries
Number of pages	115	43	66

More importantly, the role of the independent member in the board meetings was greatly reduced. In the old version, the presence of an independent member was considered a prerequisite for the board to meet. The old code stated that for the board

of directors to convene, an independent member must be present. The code also stated that the independent member shall generally attend no less than 75% of the board meetings however all the board meetings when important decisions are taken. The KCCI in its statement criticised these roles because it gave the independent member more importance than non-independent members. In the replaced code, all of these roles were eliminated. It is worth noting that these changes were mostly in line with the KCCI's point of view. In other words, the CMA eliminated most, if not all, the issues raised by the KCCI in their statement.

Therefore, the CMA allowed more flexibility regarding the independence of members for family members in firms dominated by families at the expense of other non-family shareholders. Put differently, it was proposed that the CGC sought to challenge, change and rectify the attitude of the existing practices. However, in this case, family logic will be sustained and might be reinforced. This is because family firms can appoint some members of the immediate family (e.g. niece and nephew) who live in the same house and consider them to be independent members.

The interviewees in this study had different points of view regarding these changes. The interviewees were asked to what extent they agreed with the change from the mandatory approach to the 'comply or explain' one. On the one hand, some of the interviewees believe that the CMA should not have acquiesced to these demands by the KCCI and firms:

> *"I am against them to some extent... they should not acquiesce to pressure from companies but the decision in the end is the decision of the National Assembly. My point of view is that they might be wrong*

to impose all of the code at one time but the presumption was to continue on this code and that it should be amended by responsible regulators (CMA) and not as a result of pressure from traders" (KAAA1).

On the other hand, most of the interviewees thought that, in general, the compromise between the CMA and the KCCI was acceptable. One of the ex-market committee members in KSE said that when the CMA discussed with them the proposed changes, they supported the change to the 'comply or explain' approach. This is because they believed that the application should be applied gradually:

"I think we {the market committee} were fully convinced of what happened and I think even resistance was reasonable because the first code was too big and it was too early. It might be a good proposal for the future but it's early now" (REG1).

Given the fact that the power of the KCCI is very well known among those with power, the interviewees believe that keeping the AC mandatory is a good compromise by the CMA. The reason behind this perception might be that obtaining something from the KCCI is considered an achievement.

"I think yes because the time is not suitable to apply the whole code and it should be gradually applied. Now, the CMA accepts the minimum of the mandatory component of the code and one of them is an audit committee" (REG1).

"The CMA tried to satisfy them to a great extent but it kept the audit committee mandatory. They know the value of the audit committee and its major role… I think that the Capital Market Authority did a good

job. They reached a good agreement. There are some things that are negotiable, while others are not. I agree with the Capital Market Authority that the audit committee is not" (ACCM).

Furthermore, one of the team who participated in the amendment of the CGC was asked whether the KCCI or other interested parties asked them to make the AC voluntary and not mandatory. The interviewee said that no one had discussed that with them. There might be more than one interpretation of this. The first is that the firms might find it easy to apply the code with regards to the AC. The second is that the firms believe in the importance of the AC. However, the findings in the previous chapter show that one of the main reasons for not forming an AC was a lack of awareness and knowledge of ACs. Another possible interpretation is that the KCCI and firms believe that if they were asked to make the AC voluntary (like in the case of other committees), this might weaken their argument. This is because the AC is mandatory in most countries (e.g. the KSA, the UAE, and Egypt) that were mentioned in the KCCI statement. One of the board chairmen stated that listed firms cannot show they are against the foundation and mandatory status of ACs:

"I think it's hard for companies to say they're against an AC because in the end its role was missing. Today, this role is represented by communication between the board of directors and the shareholders, and also between the board of directors and the executive, I think there is no room for negotiation" (AC2).

One of the regulators was asked why the CMA kept the AC mandatory. The regulator responded by saying that the AC gained its importance from its roles; the AC is

responsible for internal and external auditors. This regulator believes that auditing is the "safety valve" for the firms. Therefore, it is crucial to have the AC support these auditors in order for them to complete their work in the best way.

> *"Imagine that there is no audit on the company regarding what the situation will be… the audit is the safety valve for companies. It is impossible to waive the safety valve. It is like the one who is to build a house setting a very beautiful design for the house while using a very cheap foundation material. Then, there would be a possibility of it collapsing. If you don't build the foundations in the right way, believe me your house will not be safe, and this is exactly the example that applies to auditing ... you cannot imagine how important the audit is" (REG2).*

The regulator perceived the auditing functions (internal control department) as being crucial for protecting a firm's assets. In order to ensure the power and independence of the auditing functions within firms, this regulator believes that the AC must be mandatory. This is because when the AC is not mandatory, there might be firms that do not form an AC which, in turn, might affect the work of internal and external auditors.

7.6 The implementation of ACs

After June 2016, all listed firms under the supervision of the CMA must form an AC. Thus, the firms have no option but to comply or they will be subject to a penalty. The interviewees in this study believe that the AC is very crucial for the Kuwait economy and regard it as the most important corporate governance mechanism in any firm. The following citations are some of the perceptions about the importance of AC.

"The audit committee is with no doubt one of the most important committees in the listed companies" ACCM.

"The Audit Committee is considered one of the most important committees and is regarded as a safety valve" EXT3.

"The Audit Committee is a safety trigger within the company" REG2.

However, the mere formation of an AC does not guarantee its effectiveness. There is a consensus among the interviewees that there is a significant difference between the formation of an AC and the effectiveness of an AC. There is also a perception among the interviewees that the firms have not faced any difficulties in forming ACs. This is because the material and requirements in the code are easy to apply. All the chairmen, board members and AC members stated that they have not experienced any problems. An interviewee said:

"The code is very easy as the formation of a committee and appointment of its members are easy but as for the real work of an audit committee there is of course resistance" (REG1).

"The formation of the audit committee is not the important part because its formation is easy to achieve. The issue is the effectiveness of the audit committee" (ACCM).

The aforementioned quotations underscore that the issue is not the formation of an AC but the implementation and the work of the AC. Thus, the interviewees in this study were asked to what extent they believe that ACs in Kuwait will achieve their work effectively and efficiently. The interviewees identified four general patterns of behaviour and attitudes that firms express towards the implementation of an AC. The first attitude is that firms will intentionally implement AC symbolically because they

do not want it. The second attitude is that firms will substantially implement AC. The third is that firms want to implement AC in a substantive way but other factors might affect the way it works. The last is that firms do not actually need an AC and, thus, they are just compliant with the code to avoid the penalty. The difference between these attitudes and behaviours is how firms perceive and experience an AC, which, in turn, leads them to respond in different ways.

Surprisingly, almost all the interviewees believe that the majority of ACs will not be effective, indicating that its application in most firms will be symbolic, just to comply with the regulations:

> *"Few audit committees will be effective and will play their role efficiently and effectively" (EXT2).*
>
> *"If you ask me this question at the level of companies listed and unlisted, I would tell you that 90% will be ceremonial" (AC2).*
>
> *"I tell you, unfortunately, it needs time to give you a positive answer to this question, but the current situation will not be effective. It will very seldom be positive." (REG1).*
>
> *"A large number of these companies will apply the audit committee only in accordance with the code. But will the expected benefit be great? There is a great possibility that it is just compliance with the law… If I give a percentage, for example, I would expect that 20% or 25% actually benefited from it" (ACCM).*

Because the implementation of an AC is new in the field, firms might perceive it differently depending on the degree of incompatibility with the institutional logics

within firms and, in turn, mobilise different responses (Pache and Santos, 2010). In essence, logic dominates within firms and plays a significant role in the implementation of the AC. For example, it is shown in the previous chapter how conflict can arise between family logic and the formation of ACs. Family logic conflicts with the aims of the AC in a number of ways. One aim of the AC is to assist the board's oversight of executive management. From the perspective of the interviewees, family firms whose management and boards are dominated by family members or friends have no need for oversight and do not want to form an AC. Furthermore, there is no conflict of interest between the majority of the shareholders (the family), who control the voting in the general assembly and the management. Moreover, there is conflict between the aims of the AC and family logic in terms of improving disclosure. This is because the culture of these family businesses means that they are more interested in secrecy rather than disclosure. In addition, because family members hold influential positions within the firms, they have access to the information they need. Consequently, there is no need to improve disclosure. Therefore, many interviewees believe that family firms use avoidance strategies such as symbolic compliance or decoupling.

> *"I expect that the audit committee will not be effective, especially in family firms and small firms because in the end they have the information they need… In particular, family businesses have insider information in addition to the confidentiality they seek to maintain" (ACCM).*

The interviewees provided a number of motivations for this behaviour and one of them is the obsession of control. They believe that family firms are more concerned with preserving control, and because the substantive implementation of an AC might affect

their control over their firms, they tend to use symbolic compliance to preserve their control.

> *"Unfortunately, a large number of companies do not want to form an audit committee but the requirements of the code force them. This attitude or the nature of some people who do not want control over them… unfortunately, some people tell you "who are you to teach me how I manage my business?" …. But they do not know that this is for their own benefit" (REG1).*
>
> *"Without doubt there are people who have a mania to control their company and do not want the implementation of an audit committee" (PORT1).*

One of the interviewees who was the chairman of an AC supported this point of view and attributed the ceremonial application of the AC to family ownership. This interviewee disclosed that he was unaware of the legal action made against the firm until the court delivered the ultimate judgement; this is surprising because he is the AC chairperson for this company.

> *"The company had a case defended by the family lawyer and not the company's lawyer so that the information would not be disclosed to us or other shareholders, but we did not know about the case until we were sentenced, and I am the chairman of the audit committee" (PORTAC).*

This quotation clearly illustrates the conflict between family logic and disclosure. It also shows how family firms hide information from the shareholders by using their own

resources, such as a family lawyer. The interviewee further argued that this is the case for other family firms, not only in Kuwait but in Gulf countries in general:

> *"I attribute this to the nature of the owners in the Gulf, which are families, so the nature of their customs and traditions is different from other countries. Therefore, the information will be difficult to be obtained for other owners and small shareholders like in our case, even if they have an audit committee. The board of directors and the audit committee's chairman and members, such as in our case, will find that the audit committees are not important because most of the companies are family-owned. They occupy all of the company positions from the executive management to the lower departments …they are located on every branch within the company. If there are other small shareholders, this does not concern them" (PORTAC).*

This is a great example that illustrates how family firms are deeply embedded in family logic in terms of domination and nurturing the family members by employing them in firms, the secrecy of information and the treatment of other shareholders. Furthermore, it shows how the implementation of an AC will be undertaken in this type of firm. Moreover, when I asked the interviewee where the independent member was and what this member did when the firm faced this situation, the interviewee responded, very unexpectedly: *"I considered him to be an employee, not an independent member.*" What is important here is how family firms appoint their independent members and how others perceive independent members in the AC and the board of family firms.

Institutional theorists (Oliver, 1991; Greenwood et al., 2011; Pache and Santos, 2010) propose that organisations use "window-dressing" when they confront conflicting institutional logics through disguising the fact that their compliance is symbolic by attempting to make it look more substantive. It is suggested by Pache and Santos (2010) that firm members who have been institutionalised in a certain logic are likely to defend this logic when it is under threat. Moreover, they propose that when firms are faced with incompatible institutional demands, where one side of the conflict is internally represented, firms are more likely to resort to an avoidance strategy, such as symbolic compliance or decoupling. However, they also argue that the existence of both groups within the company will make it difficult to implement avoidance reactions because each will have the capability to scrutinise the other's activities and contest any inappropriate behaviour. Thus, in order to apply avoidance responses properly, these firms will seek to appoint independent members from among their family or friends to ensure that this member holds the same logic as they do. This gives an indication of how family firms use avoidance strategies to defend their own logic. This also confirms the argument of Mun (2015), who holds that organisations will attempt to defend the internal logic through symbolic compliance when the new legal demand conflicts with the internal logic.

Many researchers have pointed out that the independence of AC members is considered to be a very fundamental element of AC effectiveness (Bédard and Gendron, 2010; Bruynseels and Cardinaels, 2014; Menon and Williams, 1994). This is because of the ACs' oversight duty over the management. However, having an AC that comprises insider directors may be worse than not having an AC at all because, in this situation, the management may mislead stockholders into thinking that effective oversight is

taking place (Securities Exchange Commission, 1980, cited in Menon and Williams, 1994).

Yet, several interviewees have an optimistic view and believe that the effectiveness of ACs will improve over time.

> *"The presence of the audit committee in its present situation is better than its absence because, in future, awareness of its importance will increase and thus it will develop" (EXT3)*

One of the interviewees explained his optimism saying that the current generation, objecting to the formations of ACs, will be replaced by a new generation that might be less obsessed with family control and more opened-minded about change.

> *"The idea is that if we start with a 20% or 10% effectiveness, in the long run the managers will change, and the members will as well ... This committee will strengthen and strengthen over time ... The leaders who are present and in their positions for a long time, eventually will retire or leave with the passage of time..... In the long run it will undoubtedly have benefits…So, it takes time, but I think the ratio will not be high soon" (EXT2).*

The interviewees here implicitly argue that the reason behind symbolic compliance is that the older generation is extremely rooted in the family order with its organising principles which conflict with the implementation of ACs. Yet, the interviewees believe that family logic might be less strong in future generations of the family, who will perhaps be more open-minded to accept this institutional arrangement. This is consistent with the argument that managers in the Gulf region who are younger than 30

years old have preference for being involved in more participative management techniques (Ali, 1989; Yasin and Stahl, 1990 cited in Welsh and Raven, 2006).

Many interviewees suggested another factor that might lead to the symbolic compliance with the requirement of the AC. This factor is the method of appointing board members.

> *"We have a problem of some board members being unprofessional and this means that their careers do not lead to their being members of the board. They are actually board members because they may have a stake in the company, they may be friends, or they may be relatives or something like that. So, a large proportion of them do not even know what their role as a board member is ...This is generally in the board of directors, let alone the audit committee... I think this is one of the main reasons that limits the effectiveness of an audit committee" (ACCM).*

The above interviewee believes that many board members in Kuwait are appointed, not based on their qualifications but on their relationships such as friendship or family. The interviewee also implicitly argues that firms might not have bad intentions, but the problem is in the way of forming ACs. This is not only in family firms but also in the field culture. Therefore, the family logic which guides the appointing process of the board members might play a role in the ineffectiveness of ACs. This is in accordance with the argument raised by Sabia and Goodfellow (2005) who stated that an AC cannot be effective if it does not comprise the right people as members. Consequently, it is important to mention here that in order to improve the implementation of ACs, it is

necessary first to temper the dominance of family logic. This is true not only in family firms but also in the whole field.

Anecdotal evidence provided by Beasley et al. (2009) suggests that AC members are sometimes appointed to an AC based solely on their name and not on merit. When appointments are made on the basis of social connections, this can have a severely detrimental effect on the quality of oversight (Bruynseels and Cardinaels, 2014). This is because the board members may work for the interest of management not the shareholders. Consequently, the AC would only serve a ceremonial role.

On the one hand, some interviewees stated that there are firms that do not need an AC. This is because these firms are too small and have no large or sophisticated transactions. For instance, one of the AC members noted the following:

> *"Symbolic compliance is applied because it [the company] has no employees, there are no big transactions... Auditing is required for large operations, but they do not have ones… a company, for example, may have only one asset. Some companies only have one real estate asset which is managed by the company and it is listed on the Kuwait Stock Exchange and is making a profit… their transactions are receiving rents and are recorded in the financial statement as revenue... They do not even have an auditing department because they do not need one at all" (AC3).*

On the other hand, the interviewees believe that a number of firms would substantively implement the AC. These are the big firms and those that voluntarily formed an AC

before the issuance of the CGC. The reason behind this belief is that these firms formed the AC because of their awareness of its importance and benefits. From the ILP standpoint, this opinion of the interviewees is reasonable because the mandatory AC does not conflict with the institutional logics within these firms. In other words, the firms do not face institutional complexity regarding the implementation of ACs because these firms are embedded in market and corporate logics (as shown in the previous chapter). Shipilov et al. (2010) argue that organisations that previously subscribed to a given logic are more prone to implement subsequent practices consistent with their established logic.

These interviewees' perceptions do not agree with the believe of Ma et al. (2012), who argue that there is evidence that when companies voluntarily form ACs, they are used more for legitimacy. However, Mun (2015) assumes that organisations are more inclined to comply with regulations if doing so does not conflict with their internal logics. Moreover, Tolbert and Zucker (1983) propose that early adopters are more likely to apply the practices substantively because they are motivated by internal needs, whereas late adopters are more likely to use decoupling because their implementation is mainly motivated by external institutional pressures (cited by Luo et al., 2017). The interviews support this argument. A number of interviewees believe that the firms which formed the AC before the introduction of the CGC will apply the AC effectively. In other words, these firms will take the AC more seriously:

> *"The majority of the audit committees will be inefficient because they [firms] formed them after the introduction of code... and firms that formed them [the audit committees] before the code, will be efficient" (EXT4).*

"If the company has formed it [the AC] voluntarily, it means that it has taken the subject seriously… but if the AC is imposed on a firm, it will only try to comply with the code" (EXT1).

These findings reinforce the argument of Shipilov et al. (2010) who, found that a firm's adoption of the first wave of corporate-governance practices primes them for the adoption of second-wave practices. In summary, the interviewees believe that the firms that formed an AC voluntarily will implement the AC effectively. Therefore, it is crucial to understand the behaviour of firms that formed a voluntary AC in order to understand their behaviour in the era after it became mandatory, and vice versa.

7.7 Conclusion

This chapter had a number of aims. First, it aimed to provide an analysis and discussion of how listed firms and the KCCI responded to the introduction of the CGC and the strategies they used in this regard. The second was to provide insights into the perceptions of interviewees regarding how firms would implement an AC after it became mandatory. Last, the ILP is used to analyse the interview findings and the documentary evidence.

In order to achieve these aims, this chapter started by explaining the evolution and reformation of the stock market activities in Kuwait. Before the foundation of the CMA, the market lacked a powerful regulator and listed firms were motivated and guided by the institutional logics in which they were embedded. The institutional logics were family, market, corporate and state. However, after the foundation of the CMA in 2010, it imposed the CGC in 2013 and the market field went through a transitional period that

resulted in institutional ambiguity. In other words, the CMA, guided by state logic, attempted to implement new institutional requirements that sought to coerce firms to behave in a certain way by means of legal power. Thus, it was essential to discover and explore how listed firms experienced and responded to the introduction of the new institutional demands of the CGC. Table 7.1 below summarises the major events.

Table 7.2 Major events leading to the application of the CGC in Kuwait

Time	Event	Comment
2010	Foundation of the CMA	New regulator
June 2013	Issued the mandatory code	The first code and firms started to make delisting decisions.
February 2014	The KCCI started to play a role	The KCCI started with a compromise strategy by meeting the CMA board commissioners but this did not work.
11th March 2014	Issued a statement criticising the CMA and CGC	The KCCI decided to move from compromise strategies to defiance strategies.
24th March 2014	The Kuwaiti Parliament intervened and played a role in the conflict	A number of amendments to the CMA Law were submitted by Parliament members such as: • The tenure of the CMA board commissioners • The independence of the CMA
April 2014	A member of the CMA Board of Commissioners resigned	
30th April 2014	The CMA decided to postpone the application of the CGC until 30th June 2016.	
24th June 2014	The Parliament discussed the suggested amendments to the CMA law.	All except one of the suggestions were postponed. The one that was approved was the tenure of the CMA board which was reduced from 5 to 4 years.
August 2014	New board commissioners were assigned.	The KCCI switched from defiance strategies to manipulation.
December 2014	The Minister of Commerce and Industry was questioned.	Tactic to put a pressure on the minister and government to approve the amendments
23th March 2015	The minister received another interpellation from another Parliament member.	The minister decided to resign on the 25th of March before facing these questions.
25th March 2015	The acting minister of the Ministry of Commerce and	Achieving the manipulation strategy.

	Industry was an ex-board member of the KCCI.	
The 25th of March 2015 and the 8th of April 2015	The Parliament discussed and approved the amendments to CMA law.	The amendments were in agreement with what the KCCI had wanted
May 2015	A new minister was appointed as the Minister of Commerce and Industry.	This minister was the director of the legal department in KCCI.
July 2015	The CMA issued a replacement draft of the CGC.	This draft was mostly in agreement with the KCCI's point of view.
November 2015	The CMA issued the final and official CGC.	There is no difference between the final code and the draft.
June 2016	This was the date of the application of the CGC.	

On the one hand, the findings of this chapter revealed that not all firms perceived the introduction of the CGC in the same way. Some firms did not perceive the CGC as incompatible with institutional demands while others did. The interviews suggested that firms under the influence of corporate logic and state logic perceived the CGC as having compatible demands. Furthermore, the interviewees believed that state logic affected how the firms responded to the introduction of the CGC through firms' ownerships, board members and government tenders and contracts. It was suggested in the interviews that some firms (e.g. large firms and cross-listed firms) did not see the CGC as a conflicting demand since they already had CG practices in place.

On the other hand, the findings suggested that the new institutional demands of the CGC are in conflict with certain institutional logics, mainly the market and family logics, in the firms in the field. Greenwood et al. (2011) state that organisations experience institutional complexity whenever they face conflicting prescriptions from multiple institutional logics. Further, firms experience institutional complexity differently; therefore, the firms respond in diverse manners. The findings showed the conflict that took place between logics during the attempt to implement the CGC. On one side of the conflict was state logic, which attempted to implement new institutional

arrangements. On the other side were family and market logics in which many listed firms are embedded. Due to the incompatibility of some demands with the prevailing institutional logics within firms, it appeared that compliance was difficult to attain because satisfying some demands required others to be defied (Pache and Santos, 2010). Thus, the findings revealed that, in the beginning, a number of firms used an avoidance strategy by withdrawing from the KSE. However, this strategy did not appear to significantly affect the decision of the CMA.

Following this, listed firms turned to the KCCI for assistance with the aim of challenging the CMA; the KCCI board members were influenced by the same institutional logics as the firms because they owned many listed firms and had political and economic power. The KCCI first employed a compromise strategy. However, the CMA rejected any compromise that was proposed. Then, the KCCI switched its strategy from compromise to defiance and manipulation strategies. It conducted these strategies by attacking the CGC and the board of commissioners in the newspapers and resorted to the Kuwaiti Parliament. Thus, when the CMA rejected any compromise, the KCCI used the Parliament's power by applying a manipulation strategy. The KCCI proceeded to question the Minister of Commerce and Industry and pushed him to resign. The succeeding ministers were under the influence of the same institutional logics of the KCCI; one successor was an ex-board member of the KCCI and the second was the legal department director for the KCCI. In other words, the KCCI decided to control the whole decision-making process to ensure they could change the regulations of the CGC and CMA law in their favour. As a result, the board of commissioners was changed and the CGC was replaced with a new one that was based on 'comply or explain'. This new version of the code was consistent with what the KCCI had initially

demanded. To the best of the researcher's knowledge, until the time of writing this thesis, this was the first time in the world that the style of CGC changed from mandatory compliance to comply or explain as a response to the firms' reactions. Furthermore, there is no country that has changed the CGC completely before the application of the code took effect.

Regarding the implementation of the AC, the findings showed that there are four general patterns of attitudes that firms express towards the implementation of an AC. The first type of firm, which comprises the majority of the market, would perceive the AC as a conflict over means and they will respond with an avoidance strategy, such as symbolic compliance or decoupling. In other words, these firms do not want to form an AC, but must comply with the legislation; they typically do not want an AC because it is incompatible with family logics in terms of control, disclosure and independent members. The second type of firm does not perceive the AC as a conflict and, thus, will substantively implement it. These firms are large firms and ones that have voluntarily formed an AC before the issuance of the CGC. Simply put, there is consensus among the interviewees that firms which voluntarily formed the AC before the issuance of the CGC will implement the AC effectively. The third type of firm does not need an AC because of the limited number of transactions and employees; these are small firms. The fourth type of firm may intend to effectively implement the AC but have issues related to appointing board members which, in turn, affects the work of the AC. Thus, the issue in these firms is the culture of appointing board members based on social relationships (family and friends) rather than on qualifications. The interviewees mentioned that even if these members had good intentions to achieve their purpose,

they might not be able to do so due to a lack of knowledge and awareness of their roles and the aims of the AC.

This chapter makes a number of contributions to the corporate governance literature. As far as the researcher is aware, this is the first study that investigates the process of the implementation of the CGC in Kuwait. Further, many researchers called for more investigation regarding how the CGC was developed and implemented in developing countries (Mahadeo and Soobaroyen, 2016). Additionally, Cuomo et al. (2016) argue that for a better understanding of the roles of different parties (like government authorities, institutional investors, large shareholders and other parties), a study is needed that focuses on the process of codes development and investigates the political process which leads to developing and shaping the content of the codes. Therefore, this chapter contributes to the corporate governance literature by giving some insights on how the CGC evolve in a developing country. Further, this chapter clearly reveals the process of the development of codes and the role of interested parties. The findings highlight the roles of different parties (in this case the KCCI, firms and the Parliament) not only in shaping and changing the content of the CGC in Kuwait but also in the power of the regulator, the CMA, that imposed the CGC. In fact, the findings show that the content of the new code is in agreement with what the KCCI had initially demanded (e.g. the CGC model, number of committees, the independent member requirement and roles and the number of the CGC's pages).

The findings of this chapter also have a number of theoretical contributions. Firstly, they show that the listed firms and the KCCI have used a number of responses and strategies based on the situation. Greenwood et al. (2010: 351) stated that institutional

literature has neglected "the possibility of temporary adjustments to the same institutional pressures… the sustainability of organizational responses and their alteration and variability across time is a neglected but important theme that deserves serious attention". In addition, Pache and Santos (2010) and Greenwood et al. (2011) called for studying how the collectiveness of organisational responses impact on field structure. This study showed that the firms' responses have not only changed the style of the CGC, but they have also changed the power of the new regulator (the one who imposed the CGC). It is shown that the collective responses of the firms and the KCCI played a significant role in changing the power and authority of the CMA. This is because the organisations' responses changed the foundation law of the CMA from full independence to less independence. The aim of this change appears to use the parliamentary power to compromise or question the minister if a conflict takes place in the future.

Furthermore, Pache and Santos (2010: 473) called for an exploration of how "the profile of organizational leaders, the composition of the board, relationships with other organizations that favour specific responses, the organization's position in the field, [and] cognitive factors [past experiences]" determine the effect of the organisations' responses to conflicting institutional demands. The findings in this study provide evidence and suggest that the organisational profile, cognitive factors (past experience) and the profile of organisational leaders play a significant role in an organisation's response when facing institutional complexity.

In summary, the findings revealed that firms are heterogeneous in their responses to the CGC and ACs because each decision-maker interprets new institutional demands

differently based on the institutional logic they are rooted in. This confirmed the argument of Thornton et al. (2012), who stated that ILP does not only explain homogeneity but also heterogeneity, unlike the institutional theory. Most importantly, this chapter provided considerable evidence that the main obstacle to implementing CG and, in particular, an AC is the domination of family logic in many listed firms. Thus, in order to enhance CG practices in Kuwait, first the dominance of family logic should be tempered.

Finally, the findings in this chapter can contribute to ILP by showing how the non-economic logics, particularly the logics of state and family, influence the listed firms and stock markets. ILP researchers (e.g. Greenwood et al., 2010; Greenwood et al., 2011; Marquis and Lounsbury 2007) stated that ILP literature has neglected how non-market logics influence economic transactions. Greenwood et al. (2010) suggested that the reason for this neglect is that the majority of ILP studies were conducted in the US, where there is belief in non-intervention of the state with the affairs of the market; therefore, the role of state logic has been minimally researched. However, the findings of this study showed that the non-economic logics in Kuwait, such as state logic and family logic, have more influence than economic logics on listed firms and corporate governance.

Chapter Eight: Summary and Conclusion

8.1 Introduction

This thesis aimed to explore the introduction of ACs and the implementation of CGC in the State of Kuwait. In particular, the thesis first attempted to investigate the reasons for the delay in issuing regulations/codes for ACs in Kuwait until 2013. This research also aimed to explore, in the pure voluntary environment prior to 2013, the forces that explain why some firms voluntarily formed an AC while others did not. In 2013, the CMA issued the first CGC in the State of Kuwait, which was based on the mandatory approach, but then the CMA replaced this code with a new code based on the principle of "comply or explain" as a response to firms' adverse reactions. In order to understand why this change took place, the third aim of this thesis was to understand how listed firms perceived, experienced and responded to the introduction of the CGC in 2013 and the reasons for their reactions. The fourth aim of the research was to analyse the strategic responses that firms in Kuwait used to respond to the mandatory code and which eventually led to changing the code. The new CGC was based on the principle of 'comply or explain' for all listed firms under the supervision of the CMA. Since the requirement to have an AC is still mandatory for all listed firms under the supervision of the CMA, the last aim was to explore the perceptions of the interviewees regarding the extent to which they believed that listed firms would implement the AC effectively.

In order to achieve these aims, this thesis adopted the interpretive approach and used qualitative methods. The semi- structured interview was the main method used to collect the data. Twenty-five interviews were conducted with key individuals, including board members, AC members, regulators, portfolio managers, an ex-chairman of the KSE, external and internal auditors, creditors and academics. The findings also were

supplemented by some secondary data (e.g. interviews conducted by newspapers, reports in newspapers, Kuwait Chamber for Commerce and Industry (KCCI) Statement and Kuwait General Assembly's interpellation of the Minister of Commerce and Industry). The Institutional Logics Perspective (ILP) was used as the theoretical framework to analyse and interpret the findings of this thesis.

The following section presents the key and main findings of this thesis. After that, the contributions of this thesis are discussed, and the implications of this study are provided. Finally, the study's limitations are highlighted, along with future research suggestions.

8.2 Key findings

This section presents a summary of the main findings of this thesis as presented in Chapters Six and Seven. Chapter Six presented the findings and discussions related to the first and second aims of the thesis, while Chapter Seven considered the findings and discussions related to the third, fourth and fifth aims.

8.2.1 Introduction of ACs in Kuwait

8.2.1.1 Reasons for the delay in requiring ACs in Kuwait

Four main reasons were mentioned by the interviewees regarding the delay in implementing or issuing regulations/codes/recommendations regarding ACs in the era before 2013. These four reasons included the regulatory environment, regulators' lack of knowledge and qualifications, the state's lack of interest, and finally the conflict of interest between the regulators and regulatees and the culture and mentality of regulators in Kuwait. However, it was found that not all these reasons provided a convincing

explanation for the delay. For instance, contrary to the interviewees' perceptions, the Market Committee members had good qualifications and recognised AC's importance. For instance, the interview with an ex-market committee member showed that this interviewee had a Master's degree in business studies and was an AC member in 1980s.

Furthermore, according to the interviewees, the fact that the regulators' culture and mentality are reactive rather than proactive was one of the reasons behind the delay. In other words, the interviewees held the view that the regulators' issuance of any legislation or regulation was only a response to crises. Nevertheless, although this issue is not only present in developing countries, including Kuwait, but also in developed countries (e.g. SOX in the US), it was noticed that Kuwait had suffered from many financial crises but did not issue anything regarding ACs. Therefore, this reason was again deemed unconvincing in explaining the delay.

Some interviewees maintained that the state has less interest in regulating the stock market since this market contributed little to the state's revenue, but this argument is incongruent with the Kuwaiti state and rulers' desire to diversify state income sources. It is also inconsistent with the desire of Kuwait's ruler to make the country the financial and economic centre in the region. Therefore, this reason was also regarded insufficient to explain the delay in the introduction of ACs.

One convincing explanation for the delay under discussion was revealed by analysing the regulatory environment in Kuwait. The interviewees highlighted the absence of a single clear regulator in Kuwait due to the presence of three regulators: the Ministry of Commerce and Industry, the CBK and the Market Committee in the KSE. Thus, there

was uncertainty concerning which body should issue directives. Additionally, one of the ex-chairmen of the Market Committee stated that the latter's lack of power to issue a regulation was the main reason behind not issuing any regulations. However, this thesis argues that while these reasons have some validity, the regulators could, at least, have issued recommendations in this regard.

The most convincing explanation mentioned by the interviewees was the conflict of interest between the regulators (the government bodies) and regulatees (companies' owners and business family). Most interviewees believed this to be the main reason behind the delay due to many of the regulatory positions relating to business affairs in the state (e.g. the Ministry of Commerce and Industry, Kuwait National Assembly, etc.) being dominated by business families or their friends (see Section 6.2.4). Looking from the lens of ILP, decisions taken by organisations are shaped by those who bring their own interpretations to the decision-making process, thereby steering the way of thinking towards their own preferences and priorities (Chung and Luo, 2008; Ocasio, 1997; Greenwood et al., 2011). Because these individuals hold the highest positions in regulatory bodies, they bring their logics (market and family logics) and prioritise decisions that serve their own interests. As such, they base decisions of these bodies on market and family logics rather than on the state logic. The basis of the norms under the market logic is self-interest and, under the family logic, is to increase the family wealth and interest, which conflicts with the interests of the state logic, which is concerned with increasing the collective good and maintaining social and political order. Therefore, it can be argued that the delay may be directly or indirectly caused by influential individuals favouring family and market logics' over the state logic.

8.2.1.2 Voluntary formation of ACs

As for the second research question, the interviews suggested several logics to explain why some firms formed a voluntary AC while others did not. As Shipilov et al. (2010) point out, dominant institutional logics can affect the decision of whether to adopt a particular practice. The findings revealed many logics – market, corporate, state, professional and family – that influenced the decision to voluntarily form ACs in Kuwaiti listed firms. These logics differed in their power and effect. Some of these logics appeared to have more influence than the others. Some of these logics complemented each other regarding the formation of ACs, whereas others conflicted.

The findings indicate that the voluntary formation of an AC is primarily driven by the market, state, corporate and professional logics. Market logic affects the AC formation through the cost and benefit of its formation and shareholder activism (institutional investors), as well as improving the status of the firm, the rating obtained from rating agencies, and the competitive advantage through increasing disclosure and transparency. In addition, market logic might constrain the formation of the AC in small listed firms since the cost of formation might not justify the benefits. From the corporate logic perspective, corporate logic complements market logics in seeking profit. Nevertheless, corporate logic simultaneously pays attention to effectiveness in managing the firm and its organisational culture and improving the firm's market position. The interview findings suggest that some firms have voluntarily formed an AC because of these rationalities.

Although state and government authorities had not issued any regulation or recommendation relating to ACs in the era before 2013, the interviews suggested that

state logic through its investment bodies' (KIA and PIFSS) played a role in promoting the introduction of voluntary ACs in Kuwait. For instance, the KIA, which owns substantial shares in many listed firms and has board members in these firms, guided or directed their representatives in firms, through informal agreements, to argue for the formation of voluntary ACs. This is rational under state logic because informal control and mechanisms are backroom politics (for more detail see section 6.3.1). Another way in which state logic might have played a role is through the KIA and PIFSS' preference to invest in firms that had good CG in place, which meant that firms that had voluntary ACs were more likely to attract state investment authorities.

In addition, this thesis stresses family logic as a significant barrier to the formation of an AC because many listed firms are dominated by families. Although these firms are listed on the KSE, the dominant owner families treat these firms as though they were fully owned by the family and ignore the interests of other shareholders. In this type of (family) firm, the family members and their friends dominate all the managerial positions as well as the boards in the firms. These approaches are rational under the influence of family logic since such firms under this logic are considered as nurturers for the family members. Further, family members and their friends or relatives are appointed because of the trust in their loyalty to the family's interests and goals, which is rational under the family logic. It is, therefore, understandable that these people will work together to serve the family's interests and not necessarily the interests of the other shareholders. As such, these families manage the firms to serve their own interests. The findings reveal that this type of firm might prefer not to form an AC because family members and their friends dominate the firms and have access to all the

information they need and because they prefer to maintain secrecy and avoid disclosure with improving disclosure being one of the roles of an AC.

8.2.2 The implementation process of CGC in Kuwait

Chapter Seven provides the findings that explain the implementation process of CGC and what happened after the CMA had issued the mandatory CGC in 2013. The aim of this chapter was to understand how the listed firms perceived, experienced and responded to the introduction of the CGC in 2013 and the reasons for their reactions, and to analyse the strategies that firms in Kuwait used to respond to the mandatory code, which led to it being changed. It is important to mention that this might have been the first time when listed firms were challenged by government regulators in Kuwait on how they managed their business. Looking from the ILP lens, the CMA, guided by state logic, aimed to institutionalise the CGC with a view to improving the business environment in Kuwait.

In general, the findings of this chapter illustrated that firms perceived and, in turn, responded to the introduction and implementation of the mandatory code differently based on the institutional logics that each firm was embedded in. For example, some firms (e.g. large firms and cross-listed firms) did not see the CGC as a conflicting demand since they already had CG practices in place. Shipilov et al. (2010) state that, in reality, organisations adopt practices primarily because they are not incompatible with the ones they adopted in the past or consistent with the prevailing institutional logics within them. The findings also show that the firms under the influence of corporate and state logics did not perceive the CGC as an incompatible demand. The firms guided by corporate logic are usually motivated by their corporate culture (e.g.

following the best practices), which influences the degree of their acceptance of the CGC. The interviewees believed that the culture of board members and owners (e.g. progressive and open minded**)** is very crucial in this respect since they are the main decision makers in listed firms. Thus, they argued that the culture of firms, boards and owners that sought to adopt the best international practices accepted CGC in Kuwait.

State logic, through state ownership and government tenders, played a crucial role in firms' perceptions and responses to the introduction of the CGC. The firms guided by the logic of the state, through ownership and board representatives, are motivated to meet the requirements of governmental agencies, conform with state regulations and attain state goals (Dai et al., 2017). Concerning government tenders, Pache and Santos (2010) state that when organisations rely on important institutional actors for resources, they are likely to fulfil those actors' wishes in order to maintain access to those resources. Therefore, these firms that depend on government tenders might perceive the CGC as conflicting institutional demands but would still accept it to maintain access to those tenders.

On the other hand, this research revealed that firms that perceived the introduction of the CGC as an incompatible institutional demand were driven mainly by market and family logics. Many listed firms rejected the implementation of the mandatory code due to the implementation cost. This is especially true for small firms with the belief that implementing the mandatory code is costly and does not improve efficiency. From the market logic perspective, the conflict occurs with institutional demands because the institutionalisation of CGC would impose additional costs on listed firms. Under the

market logic, it is rational that the firms are driven purely by calculation of the costs and benefits of any decisions or actions (Thornton et al., 2012).

Greenwood et al. (2011) contend that the attributes of an organisation, such as ownership, can make it more sensitive to certain logics than others. The findings of this thesis show that the firms under the influence of family logic perceived and experienced the introduction of the CGC more intensely than other firms because the family logic's principles are at odds with the CGC principles. Under family logic, family members make all important decisions, family tradition drives decision making, and the firm aims to benefit family members and to maintain control over the board and the firm (Reay et al., 2017). These principles conflict with the CGC, which aims to improve governance, transparency and particularly the role of independent members. Due to the incompatibility of these demands with the prevailing institutional logics, it appears that compliance is difficult to attain because satisfying some demands might be at the expense of others (Pache and Santos, 2010; Greenwood et al., 2011). Therefore, these firms perceive this code as a threat to their logic and a stark intervention in their privacy and in the way they work given that they manage the firms based on family logic, which might be affected by the code.

The findings reveal that the firms used a number of strategic responses to the introduction of mandatory CGC with the aim of changing the code. Firstly, some firms used the avoidance strategy by withdrawing from the KSE. However, the CMA insisted on their opinion about the mandatory code and did not react to that strategic response.

Subsequently, firms sought assistance from the KCCI, which is the most powerful professional body in Kuwait (Moore and Salloukh, 2007). Its board members own large stakes in many listed firms and are considered as representatives of firms' and owners' interests. These board members are influenced by family and market logics. The KCCI, which became an important player in the conflict, started with a compromise strategy through holding a meeting with the CMA board commissioners, which, according to an official in KCCI, was a common approach the latter used when conflicts occurred. Despite that, the CMA board of commissioners insisted on the mandatory code.

This led KCCI to consider a different influential approach. They applied a defiance strategy by attacking the CGC along with the CMA board of commissioners. The KCCI published a statement in all the newspapers that criticised not only the CGC but also the CMA board of commissioners and its foundation law. This was an unparalleled approach taken by the KCCI in its history. In other words, this was the first time for KCCI in its entire history it issued a statement. Consequently, the Minister of Commerce and Industry coordinated a meeting between the CMA and KCCI to resolve the conflict with regards to the CGC.

The findings revealed that the KCCI was yet not convinced and decided to carry on with a more aggressive approach. It opted for a manipulation strategy by using the power of the Parliament. The result was that the Parliament changed and reduced the tenure of the CMA board of commissioners and eventually the CMA board of commissioners was replaced. Another tactic the KCCI employed was the interpellation of the Minister of Commerce and Industry to put him under pressure either to approve the changes or push him to resign. The KCCI succeeded in their task as the Minister of

Commerce resigned and was then replaced by an individual who was connected to them.

The new CMA board of commissioners amended the CGC in compliance with KCCI requirements. A major amendment was that the CGC was no longer mandatory. Instead, it was replaced by a 'comply or explain' approach. Other changes included the following: reducing the number of mandatory committees to two (AC and Risk Committees), reducing the roles and conditions of the independent member (e.g. from second-degree relatives to first-degree ones) and reducing the number of code pages (from 115 to 43 pages). The reactions of the KCCI and the listed firms changed not only the code but also the law of the CMA. For instance, the CMA became financially dependent on the Ministry of Commerce and Industry, which, in turn, made the minister politically responsible for the work of the CMA and its board commissioners. In sum, the new code and law of the CMA became compliant with KCCI and listed firms' requirements. Consequently, these changes perhaps contributed to maintaining or strengthening the existing firms' behaviour and practices (the family logic).

The last aim of this thesis was to explore the perceptions of the interviewees regarding the extent to which they believed that listed firms would implement the AC effectively. According to the interviewees, depending on their nature, firms adopt four general patterns of behaviour and attitudes to the AC implementation. The first type of firm, comprising the majority of the market, would perceive the AC as a conflicting institutional demand and would respond with an avoidance strategy, such as symbolic compliance or decoupling. In other words, these firms do not want to form an AC, but must comply with the regulation. These firms typically do not want an AC because it

is incompatible with family logics in terms of control, disclosure and independent members. The second type of firm are the small listed firms. These firms do not need an AC because of the limited number of transactions and employees; therefore, the ACs would be implemented symbolically. The difference between the aforementioned two types of firms is that one of them does not want to form an AC while the second type does not need it.

The third type of firm does not perceive the AC as a conflict and, thus, substantively implements it. These firms are large firms and ones that have voluntarily formed an AC before the issuance of the CGC. There is consensus among the interviewees that firms which voluntarily formed the AC before the issuance of the CGC would implement the AC effectively. Looking from the lens of institutional logics, the implementation of AC is consistent with the dominating institutional logics within this type of firms. Shipilov et al. (2010) argue that organisations that previously subscribed to a given logic are more prone to implement subsequent practices consistent with their established logic.

The fourth type of firm includes the firms that may intend to effectively implement the AC but have issues regarding appointing board members, which, in turn, affects the work of the AC. Thus, the issue in these firms is the culture of appointing board members based on social relationships (family and friends) rather than on qualifications and competences. The interviewees stated that even if these members may have good intentions to achieve their purpose, they might not be able to do so due to a lack of knowledge and awareness of their roles and the aims of the AC. In other words, the dilemma in these firms, although they might not be family firms, is the influence of

family logic that greatly impacts not only the family business but also the whole society in Kuwait.

8.3 Contributions of the study

This thesis makes a number of empirical, theoretical and methodological contributions. The following subsections present these contributions.

8.3.1 Empirical contributions

Empirically, this thesis contributes to the CG and AC literature. Concerning ACs, most previous studies investigated the reason behind the introduction of ACs, but little attention has been given to the reasons behind the delay in issuing any AC regulations/codes/recommendations. What is needed is a better understanding of the regulation environment through identifying the factors that influence issuing regulations and the behaviours of regulators. For instance, this study shows that the main reason behind the delay was the dominance of family and market logics. These logics are also the primary reason behind the resistance of the mandatory code, which led to changing it.

Most studies on ACs, in general, have focused on developed countries (Al-Malkawi et al., 2014). Although the research in developing countries is growing, particularly in Asian countries, studies concentrating on MENA countries, especially the GCC ones, are scarce. Moreover, most of the prior studies regarding the voluntary formation of ACs were conducted in developed and western countries (e.g. in the USA: Eichenseher and Shields, 1985; Pincus et al., 1989; Menon and Williams, 1994; in the UK: Collier, 1993; in France: Piot, 2004; in New Zealand: Bradbury, 1990; in Belgium: Willekens

et al., 2004; in Australia: Chen et al., 2009). To the best of the researcher's knowledge, this is the first comprehensive piece of research to investigate the voluntary formation of ACs not only in the Kuwaiti context but also in that of the GCC countries. Such an investigation contributes to the AC literature by offering useful insights from an emerging country perspective, which can help in understanding ACs and be utilised for comparative research. Unlike the findings in developed countries, the findings of this thesis revealed that social factors (e.g. family logic and culture) as well as economic factors played a very significant role in the formation of ACs in Kuwait.

There have been many calls to investigate and understand the process of the development of codes (Ahmad and Mahmood, 2015; Mahadeo and Soobaroyen, 2016; Ahmed and Uddin, 2018; Cuomo et al., 2016). For instance, Cuomo et al. (2016) reviewed the CGC literature and called for research to investigate the process of the development of codes. They further argued that for a better understanding of the roles of different parties (like government authorities, institutional investors, directors' associations, large shareholders and other parties), a study is needed that focuses on the process of code development and investigates the political process which leads to developing and shaping the content of the codes. More specially, Mahadeo and Soobaroyen (2016) state that it is not clear how CG requirements adapt and evolve over time in developing countries. Moreover, Ahmad and Mahmood (2015) highlight the importance of investigating the political process of the development and implementation of CGCs in developing countries. Additionally, Ahmed and Uddin (2018) call for an investigation into actors' strategic choices and actions in processes of restricting institutional change to better understand development dynamics in a CG field with multiple logics. Moreover, despite the existing studies on the approaches to

the implementation of codes (i.e., mandatory versus voluntary regulation), there is a need for more studies in developing countries (Cuomo et al., 2016). As such, this thesis made a contribution to filling this gap in the literature of CG by providing a comprehensive analysis of the political process of issuing and developing the CGC from a developing country perspective. This thesis also showed that the business elite (the KCCI), listed firms, and the Kuwaiti Parliament played a very important role in shaping and developing the CGC in Kuwait and that these parties also shaped the power of the regulator (the CMA) that issued the CGC

Since conducting this research started before the date of applying the CGC in Kuwait, which took place in June 2016, this study is considered among the first, if not the first, to explore the implementation of the CGC in Kuwait. In fact, conducting the study during this period gave the researcher a great chance to grasp the fresh perceptions of the key players and the conflicting parties regarding CGC implementation. Furthermore, this study was among the few studies which took place during the application stage.

8.3.2 Methodological and theoretical contributions

This thesis also contributes to the CG and ACs literature by adopting an interpretive approach and using semi-structured interviews as a research method to answer these research questions. Generally speaking, many researchers have called for using qualitative methods while studying the topics related to corporate governance and ACs (e.g. Ahrens et al., 2011; Beasley et al., 2009; Carcello et al., 2011; Ghafran and Sullivan, 2013; McNulty et al., 2013; Turley and Zaman, 2004; 2007; Mat Yasin et al., 2014). Most previous studies that aimed to understand the voluntary formation of ACs have used a quantitative approach. McNulty et al. (2013) state that qualitative studies

in CG are largely absent in emerging markets, particularly in the Middle East. By adopting a qualitative method, this study provides greater understanding of stakeholders' behaviors, actions, rationalities, and motivations in the implementation of CGC and ACs in Kuwait.

The current study also makes some theoretical contributions. The most dominant theory used in studying CG and ACs is agency theory (Bédard and Gendron, 2010; Cuomo et al., 2016; Gendron, 2009; Ghafran and Sullivan, 2013; Guthrie and Parker, 2011; Parker and Northcott, 2016). Cuomo et al. (2016) reveal that agency and institutional theories are the most dominant approaches in studies on CGCs. Thus, many researchers (e.g. Cuomo et al., 2016; Parker and Northcott, 2016) call for using different theoretical lenses to offer new interpretations and a better understanding of corporate governance. Thus, the current study responded to these calls by using the ILP as a theoretical framework to analyse the findings of this study. Most importantly, as far as the researcher is aware, no prior study exists in the AC literature that used the ILP. In fact, the adoption of the ILP provides further insight and better explanation than agency theory, which is an under-socialised view of human behaviour, and institutional theory, which focuses more on isomorphism and homogeneity. The ILP, unlike agency theory, assumes that individuals or firms act based on their socialisation to cultural norms and values within domain logics. Likewise, unlike the institutional theory's emphasis on isomorphism and homogeneity, the ILP focuses on understanding not only homogeneity but also practice difference and heterogeneity. Therefore, in this study, the ILP was helpful in understanding why firms differ in terms of forming ACs and responding to the introduction of the mandatory code.

Furthermore, most previous studies that used the ILP were conducted in developed countries and western contexts, while very few studies were conducted in developing countries, particularly Middle Eastern ones. In this regard, Sarma (2013) called for exploring the suitability of the ILP in developing and emerging economies. Therefore, this thesis within Kuwait extends the use of the ILP to a new context.

Furthermore, researchers who used the institutional logics theory (e.g. Greenwood et al., 2010; Greenwood et al., 2011; Marquis and Lounsbury, 2007) state that the institutional logics literature has neglected how non-market logics, family and state logics, influence economic decisions. This is because the majority of ILP studies were conducted in the US, where there is a belief in the state's non-intervention in the affairs of the market; therefore, the state logic's role has been minimally researched (Greenwood et al., 2010). Moreover, Fairclough and Micelotta (2013) highlight that the family logic received less attention in the ILP literature. The current study contributes to institutional logics literature by showing how the non-economic logics, particularly the logics of state and family, influence economic decision-making. In fact, the study shows that the state logic, which guided the CMA, and the family logic, which guided the listed firms and the KCCI, were the most significant logics in the CGC implementation in Kuwaiti context.

It is important here to mention that the ILP fails to take friendship into account and does not specify where the latter should be placed in terms of the different logics. This might be because the ILP has been developed within a western context. The basis of institutional logics is the presence of various logics, different in terms of importance and influence, in every society. So, friendship might have a great influence in a

particular society but not another. As regards the Kuwaiti society, this study shows that for the interviewees, friends are to be treated as family members. For example, in many instances during the interviews, friendship and family were evoked in the same sentences and contexts.

Pache and Santos (2010) and Greenwood et al. (2011) called for a study of how the collectiveness of organisational responses impact on field structure. The current study responded to these calls and showed that the firms' collective responses and the KCCI played a significant role in changing the CMA's power and authority. This is because the organisations' responses changed the foundation law of the CMA from being fully independent to being less independent. In addition, the study shows that the listed firms and the KCCI used a number of responses and strategies based on the situation. As such, this thesis makes a contribution to the institutional logics literature, given that Greenwood et al. (2011) say this literature has neglected the possibility of temporary adjustments to the same institutional pressures.

Finally, Greenwood et al. (2011) state that the majority of ILP studies consider only two logics and thus call for a more comprehensive examination of settings in which more than two influential institutional logics exist. Thus, the current study contributes to the growing ILP studies that focus on showing that there are a number of logics (namely state, market, family, professional and corporate) that influence the actions and behaviours of listed firms, regulators, legislators and other parties (e.g. the KCCI).

8.4 Implications of the study

The findings of this study have some implications for policy makers, regulators, practitioners, investors and firms.

For policy makers and regulators, this study shows that it is very crucial to understand the prevailing institutional logics before issuing any regulation to avoid any possible conflict that might take place. In fact, the findings of this study revealed that the conflict occurred because the firms and interested parties that were embedded in the family logic for a long time wanted to defend this logic. Therefore, understanding the cultural environment in a certain context will hopefully make policy makers capable of identifying the dominant logic(s) and, consequently, increase their chances of implementing CG reforms and improving the relevant practices in the best way possible. Thus, this study recommends that regulators and policy makers, not only in Kuwait but around the world, should take into consideration the institutional logics that exist in the field before introducing any new regulation. Further, to avoid the cost of conflict and evoking a similar reaction to that expressed by Kuwaiti firms, it is recommended that regulators should make the change gradually over a period of time.

Since Kuwait is experiencing a transition period to fulfil the desire of the ruler to make the country the pioneering economic and financial centre in the region, the findings of this research can assist in achieving this aim through guiding the regulators and policy makers in the country to improve the market environment and attract international investors. It was revealed in the current study that the main obstacle encountered on the implementation of the CGC and ACs stemmed from family and market logics. As far as the market logic is concerned, the firms' reaction to the CGC was a result of these

firms' belief that implementing the CGC would incur high costs without generating much benefit. From the family logic perspective, the firms reacted in the way they did because they perceived the CG as a stark intervention in the works and a threat to family control.

There are several ways to change these perceptions. One possible way is that Kuwaiti regulators should first aim to temper the dominance of family logic in order to enhance CG practices. Bearing in mind that the CGC in Kuwait is in its infancy stage, for the regulators (the CMA and KSE) to succeed in this, it is highly recommended that they set a training program condition as a prerequisite for any candidate board member. This program should aim to enhance and improve these members' knowledge about their roles and responsibilities and to raise their awareness of the benefits of implementing the CG. Another possible recommendation is that the CMA can set a professional exam that candidate board members, be they independent or non-independent, have to pass in order to qualify for the board. Such programmes should aim to eliminate the misunderstanding among family firms' board members that implementing the GC is a threat to the family. One example of how this can be achieved is by convincing these firms that applying the CG could be in their best interest as it is likely to attract international and institutional investors, who usually prefer firms with good CG.

Another possible approach to temper the family logic is to strengthen corporate and professional logics to counter family logic. This can be achieved by making the definition of independent members stricter, because the current definition is very weak and might sustain family logic rather than challenge it. In addition, regulators can play a role in encouraging shareholders to engage in the general assembly, which in turn

might improve the appointment of independent members. In the same vein, it can be suggested that regulators should introduce a regulation that allows the minority interest to challenge the independent members when they believe that there is lack of impartiality or potential of conflict of interest (e.g. friendship).

The findings uncover a lack of awareness and knowledge among some of the interviewees who should have adequate knowledge in CG. Thus, to raise awareness of CG benefits among potential practitioners, it is recommended that Kuwait University and private universities in Kuwait begin teaching a CG academic as a stand-alone module. Furthermore, the professional bodies (e.g. the KAAA and KCCI) can play a more active role in increasing the awareness of stakeholders by providing training courses about CG.

One last suggestion is that the regulators can improve the market environment by dividing the market into two tiers: one for non-family firms and another for family-dominated firms. In this case, each of these markets should have their own requirements and codes. In other words, regulators may issue a specific code for family firms. It is worth noting that a number of countries have started to introduce this type of code (e.g. Colombia, Morocco and Switzerland).

Kuwait Stock Market was listed on the Britain's FTSE Russell index for emerging markets in 2018 and on Standard and Poor's Dow Jones in the beginning of 2019; it will be added to the MSCI Emerging Markets Index in May 2020 (KUNA, 2019). These upgrades are estimated to result in billions of dollars of investor inflows into the KSE (Arab Times, 2019). International investors take CG very seriously (Hassan et al.,

2018); thus, it is highly recommended that Kuwaiti firms should try to implement the best CG practices in order to attract these international investors. By the same token, the researcher recommends that investors, academics, creditors and other stakeholders in Kuwait give more attention when they evaluate the CGC practices, perhaps particularly the independent members. This recommendation is not only for family firms but also for all types of firms.

8.5 Limitations of the study

Like other studies, this study is not without limitations. The first limitation is related to the number of interviewees, which was 25 individuals. As the researcher's plan was to conduct interviews until information redundancy is reached, it was thought to be best not to predetermine the number of interviewees prior to data collection. Furthermore, the strategy used for selecting the interviewees in this study was 'judgement' sampling. This strategy ensured that key individuals were interviewed. In other words, the researcher selected the interviewees very carefully in order to obtain rich and insightful information about the topic of this study.

The researcher tried to interview people belonging to the most interested parties regarding the conflict in implementing the CGC but could not interview some targeted groups. For instance, the researcher could not interview any member of the Union of Investment Companies due to access difficulty. Although the KCCI is considered the most powerful and influential professional body in business activities (Moore and Salloukh, 2007), the researcher believes that the Union of Investment Companies might play a role in the conflict related to the CGC implementation. In addition, the researcher could not interview parliament members due to the difficulty of access and

preoccupation of this group. These groups could have offered more information and insights about the conflict in implementing the CGC as the Parliament members played a significant role in the conflict between the CMA and KCCI.

This study only interviewed one official from each of the CMA and KCCI. Although these two interviewees were knowledgeable, held very high influential positions in these institutions and were engaged in the conflict between the CMA and the KCCI, more interviews within these institutions could have provided additional or different insights. The reason behind interviewing only one from the CMA was that there were only a few employees involved in CGC. Additionally, the access to these bodies, particularly the KCCI, was difficult. In fact, very few studies have been able to conduct interviews with individuals from the KCCI.

Despite being very useful in analysing the research findings, one of the challenges that faced the researcher in applying the ILP was the distinction between market and corporate logics. Although the researcher attempted to provide as many details as possible regarding how to use these logics in the analysis, there was no clear-cut line between these two logics. Therefore, different researchers might interpret the findings in different ways regarding these logics. This might also be an explanation of why some researchers in institutional logics use, for example, commercial logic (e.g. Jaskiewicz et al., 2016), business logic (e.g. Reay et al., 2015; Galaskiewicz and Barringer, 2012) instead of market or corporate logics. Therefore, it is very crucial for institutionalists to remove this vagueness in order to improve analysis in future studies.

This study was conducted during the first year of the implementation of CGC in Kuwait. Thus, there might be one possible downside of the timing of this study. This is because that interviewees might have had a little reflection time regarding the CGC and ACs. Lastly, this study may lack generalisability like other qualitative studies. In fact, this study does not aim to provide a statistic generalisation but some insightful information that can be used in similar context.

8.6 Future research avenues

Given the limitations mentioned in the previous section, future research might extend the findings of this study by interviewing more people from the CMA, the KCCI and the Union of Investment Companies that may provide additional or different insights. Further, this study did not interview any firms under the supervision of the CBK and targeted only the listed firms under the supervision of the CMA. Therefore, future work should also consider companies supervised by the Central Bank of Kuwait.

Future research should target Islamic firms and religious people interested in business activities to provide more insight and to find out their perception about the implementation of CG and ACs. This is because many institutionalists believe in the religion logic's influence in traditional societies (Thornton, 2015; Thornton et al., 2012; Friedland and Alford, 1991). Further, many listed firms in Kuwait follow Islamic principles in their activities, and although the findings of this study reveal that the religion logic exerts no influence, perhaps due to the sample of this study, future research may consider focusing on the religion logic.

Since this study took place exactly during the application stage, future research could explore the perceptions of the stakeholders regarding the effectiveness of ACs and independent members as a basis for a comparison with this study. As most of the interviewees believed that the majority of ACs would be ineffective and that firms could use the decoupling strategy in their implementation of ACs, it may be interesting for researchers after some time interval to compare the actual implementations of ACs with the interviewees' perceptions. In addition, future studies might use multiple case studies in some firms to explore how these firms apply the decoupling strategy.

One of the interviewees pointed out to the fact that having multiple family ownership in a firm may improve the CG practices within that firm. Therefore, it is interesting to explore how the presence of multiple families in firms influences the level of compliance with the CGC.

Finally, it is worth mentioning that while many studies in developed countries (e.g. Arcot and Bruno, 2006; Arcot et al., 2010; Shrives and Brennan, 2015; Akkermans et al., 2007; Lepore et al., 2018) have examined the quality of explanation in cases of non-compliance and found it generally low, this aspect has been neglected in developing countries. Therefore, this area of research is also worth discovering.

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Appendices

Appendix A Athical Approval

University of Essex

ESSEX BUSINESS SCHOOL

Participant Consent form for Research Project: "The introduction of Audit Committee in State of Kuwait"

Dear participant,
This research is being carried out by [Souod Alazemi] under the supervision of Professor Stuart Manson and Dr. Magda Abou-Seada. I am investigating about the introduction of Audit Committee in State of Kuwait. The study aims to find out the perceptions of the main players (external/internal auditors, regulators, Kuwait Champers members, professional bodies and listed companies) in Kuwait's economy about the introduction of ACs in Kuwait. In addition, the following questions will be investigated: how likely is the introduction of ACs to affect the internal and external audit work; and What are the incentives and motivations for companies to have a voluntary AC.

If you agree to participate in this study, you will be interviewed by the student.
The answers which you provide will be recorded through notes taken by the interviewer/audio recording
All information collected will be kept securely and will only be accessible by myself and my supervisor.

Data will be anonymised and if data which you provide is used in any publications or reports then a participant number or pseudonym will be used and identifying details will be removed. A list may be kept linking participant numbers or pseudonyms to names, but this will be kept securely and will only be accessible by myself and my supervisor. A copy of the information which we record about you, but not other participants, will be provided, free of charge, on request.

You are free to withdraw from the study at any time, without giving reasons and without penalty, even after the data have been collected. However, if publications or reports have already been disseminated based on this data, these cannot be withdrawn.

We would be very grateful for your participation in this study. If you need to contact us in future, please contact me (shaala@essex.ac.uk) or Dr.Magda Abou-Seada (magdaas@essex.ac.uk) or Professor Stuart Manson (manss@essex.ac.uk). You can also contact us in writing at: EBS, University of Essex, Colchester CO4 3SQ.

Yours,

Souod Alazemi

Statement of Consent

- I agree to participate in the research project, *the introduction of Audit Committee in State of Kuwait*, being carried out by *Souod Alazemi*.
- This agreement has been given voluntarily and without coercion.
- I have been given full information about the study and contact details of the researcher(s).
- I have read and understood the information provided above
- I have had the opportunity to ask questions about the research and my participation in it.

_____ _____
Participant's signature Date

Appendix B List of the interviewees

#	code	role and experiences
1	REG1	AC independent member in two firms and ex-Market Committee member of KSE
2	AC2	Chairman of board of director and AC member in two listed firms
3	BOD1	board of director member
4	AC3	Non-independent AC member
5	REG2	Regulator in CMA
6	ACA1	Academic and independent board of director
7	ACA2	Academic and consultant in one of the ministries
8	ACA3	Academic and consultant in one of the ministries
9	KAAA1	Ex-chairman of KAAA and head of one of the listed firms' compliance departments
10	KAAA2	Ex-chairman of KAAA and executive manager in a firm
11	KAAA2	KAAA board member and internal auditor
12	EXT1	External auditor in one of Big four
13	EXT2	Big Four partner
14	EXT3	Big Four partner
15	EXT4	External auditor
16	INT1	Internal auditor
17	COM1	Head of compliance Department in one of the listed firms
18	PORTAC	Portfolio manager and AC member in two firms and board member
19	ACS1	AC chairman
20	KCCI1	KCCCI manager
21	PORT1	Portfolio manager in the biggest investment firm
22	ACS2	AC chairman
23	BODS1	board of director chairman
24	POR3	Investment analyst and broadcaster
25	INT2	Chairman of internal control of a listed company and AC secretary

Appendix C Interview Guide

Part one: Introduction of interview and general questions

1. Brief introduction about the research objectives
2. Demographic information about the interviewee

Gender	Age	Qualification	Current position	Prior experiences	Professional Certifications
Male Female		Bachelor Master PhD			

3. Can you tell me what you know about Audit Committee?
4. Can you tell me about the importance and roles of Audit Committee?

Part two: the first and second research questions

1. Why do you think some firms have voluntarily formed Audit Committees in the era before the issuing of Corporate Governance Code?
2. What are the motivations behind the formation of voluntarily formed Audit Committees?
3. Can you tell me what your perception and opinion about these firms?
4. To what extent do you think that these firms were implementing the voluntary Audit Committee effectively? Why?
5. In your opinion, why did other listed firms not form voluntary Audit Committees in that time?
6. In your opinion, what were the reasons behind the delay of issuing codes or regulations regarding the Audit Committee?

Some other questions were asked to a particular group of interviewees:

- Questions relating to internal and external auditors:
  - Can you tell me to what extent did you think that the existence of a voluntary Audit Committee will affect your work? Audit fees, your independence?
- Questions relating to Boards members:
  - Why did you not (not) you form a voluntary Audit Committee in the era before the issuing of the Corporate Governance Code?

Part Three: The introduction of CGC and AC, and how firms perceived, experienced and responded to CGC?

1. After the introduction of CGC 2013, in your point of view, to what extent did the firms accept the code?
2. There was a reaction from firms, can you tell what happened in your opinion?
3. Why did some listed firms react in this way toward the introduction of CGC?
4. What were the steps taken by firms and KCCI in the reaction toward the introduction of CGC?
5. What was the role of KCCI in this process and why?
6. In 2015, the CMA replaced the old code, which relied on the mandatory basis, with a new code, whose basis was 'comply or explain'. To what extent do you agree with this change? Why?
7. Did the CMA send you a draft of the CG and AC document (to make comments on it) before issuing it? If yes, can you tell me what your comments were with regards to the Audit committee?

8. How do you define the independent board member?
9. Do you agree with the changes on the definition of independence in the code? Why?

Part Four: the effectiveness of the mandatory code of the Audit Committee

1. There are some changes in the GC code; however, the Audit Committee is still mandatory. To what extent do agree with this? Why?
2. What are the characteristics required for the Audit Committee members to achieve their duties and responsibilities properly?
3. What are the ways of selection of the Audit Committee members, and specially the independent member?
4. To what extent do you think that the Audit Committee will be effective after the introduction of CGC? Why?
5. To what extent do you think that the current Audit Committee code sufficiently allows the Audit Committee to work independently? Why?
6. What are the factors that might affect the effectiveness of the Audit Committee in Kuwait?
7. Do you want to add anything regarding the audit committee and corporate governance?