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# A CLOSER LOOK AT THE CORPORATE GOVERNANCE IN LEBANON: A CALL FOR A BOTTOM-UP REFORM

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## Abstract

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Successful governance of a country requires sustainable development, the benefit of future generations, clear assignment of roles and responsibilities, accountability of decision-making, accuracy and transparency of information, sound performance and the rule of Law. It is built upon cooperation and participation between its government, its institutions and its citizens. The slow pace of establishing these governance priorities and the inability of any government, such as the Lebanese, to formulate and implement sound legal and institutional policies, plus the lack of awareness of corporate governance, as people remain attached to their old traditional ways of managing their companies, are critical challenges to any good governance effort and to any reform. The purpose of this study is to shed light on the urge to rethink governance and institutional change in Lebanon. Based on five axes, a multimodal design helped us investigate and tackle the Lebanese multi-level corporate governance Bundles. The study found that in a complex social context, such as Lebanon, shifting to a new standpoint requires different factors. A new and sound Lebanese economic model coupled with proper governance and stability in the country may emerge from a bottom-up reform, if well implemented. The challenge is to find if this may be another missed opportunity.

**Keywords:** Economic Governance, Corporate Governance, Multi-level Corporate Governance Bundles, Institutional Change, Bottom-up Reform

## 1. INTRODUCTION

Successful governance of a country requires sustainable development, the benefit of future generations, clear assignment of roles and responsibilities, accountability of decision-making, accuracy and transparency of information, sound performance and the rule of Law (Marcel, 2012). It is built upon cooperation and participation between its government, its institutions and its citizens (Johnston, 2012). The slow pace of establishing these governance priorities and the inability of any government, such as the Lebanese, to formulate and implement sound legal and institutional policies, plus the lack of awareness of corporate governance, as people remain attached to their old traditional ways of managing their companies, are critical challenges to any good governance effort and to any

reform. Built on the fact that the Lebanese challenges “do not allow for the implementation of certain corporate governance principles”, as argued by Meouchi and Haidar (2018); the purpose of this study is to shed light on the urge to rethink governance and institutional change in Lebanon and to explore practical ways to implement a bottom-up reform.

National governance manages a country's affairs at all levels, through the “participation of all citizens in the decisions that affect their lives” (UN, 2016). Therefore all critical actors, whether commercial companies, banks or NGOs, should play distinct roles, “while part of their larger efforts is to promote better governance at the national level” (UN, 2016). The application of the regulations and the constitutional rules and the sanctions against those who do not comply to these rules are to be

applied and even enforced by members of the governing bodies of the public sector entities who need to exercise sound leadership. In this respect, article 69 of study 13 of the IFAC (2001) states that this could be achieved if these members “conduct themselves in accordance with high standards of behavior, as a role model for others within the entity”. Yet, this is difficult in a country that has been through many wars and conflicts during the past decades, and where the level of corruption within these specific entities had reached severely high levels, according to reports.

In this particular context, focusing on the different models of corporate governance (CG), on the board functions, and on the corporate ownership structure while paying little attention to the national governance system, means turning a blind eye while distorting the whole picture. The interplay between the Economic Governance (EG) and the Corporate Governance (CG) is a need (Dixit, 2008). It allows for a better understanding of the specificities of the Lebanese governance concept. A top-bottom vertical study offers an opportunity to explore how different combinations of governance practices at the national level, such as the legal system and the conduct codes affect the firms’ levels, their board of directors, their functions and dependencies. Back to Dixit (2009), (EG) influences the (CG), economic governance (EG) being a set of three essential prerequisites of the market economies: (1) security of property rights, (2) enforcement of contracts and (3) collective actions; able to provide organizational and physical infrastructure<sup>1</sup>.

According to Dixit (2009), in less-developed countries, such as in Lebanon, weak formal governance is to be expected. Since governments fail to provide all governance, it leaves it up to the private institutions to work as niches, to serve the essential prerequisites (p. 7), and to enforce the norms (p. 8). By setting its own order, the problem “converts from one of enforcement of an arms-length contract into an agency problem in corporate governance” (p. 8); and turns (EG) between different economic units into (CG) within one unit (p. 12). To keep in mind that many factors can influence CG, including the regulatory and the legal environments, the structure of capital and labor market, and the product market competition. In less-developed countries, CG mechanisms may be non-existent, and if they do exist, they are generally weak and ineffective (Shleifer & Vishny, 1997).

<sup>1</sup> Dixit (2009, p. 6) defines the three prerequisites as follows: “(1) Security of property rights: Without this, individuals will lack the incentives to save and invest, because they will fear that others will deprive them of the fruits of these activities. They will also forgo capital market trades to achieve an efficient allocation of assets because they will fear for the principal and not just the return on the capital they invest in others’ enterprises. Moreover, Erica Field (2007) finds that the security of capital improves the productive use of labor, as people no longer have to spend their time and effort guarding their property. (2) Enforcement of contracts: Economic transactions promise gains to all voluntary participants. However, each party may lose if the other fails to fulfill its promised role in the transaction but instead acts opportunistically. Fear of such counterparty cheating may prevent people from entering into the contracts, and mutual gains will go unrealized. Formally, this is a bad equilibrium in a prisoner’s dilemma. (3) Collective action: Much private economic activity depends on an adequate provision of public goods and the control of public “bads.” In this, not only is the physical but also the institutional and organizational infrastructure. Provision of social safety nets, facilitation of internalization of externalities, and the control of public bads, for example, management of common pool resources, all involve problems of collective action to avoid free-riding; they are multiperson prisoner’s dilemmas”.

CG is to be therefore considered in the context of the overall structure and framework of the economy in which it is studied (Maher & Andersson, 1999, p. 11). It is a crucial element in improving microeconomic efficiency that “affects the development and functioning of capital markets and exerts a strong influence on resources allocation” (p. 4).

In this context, understanding CG and its effects can provide policy guidance and discussions that can serve as a basis for understanding its dynamics. Therefore, we will not define CG as “the system by which companies are directed and controlled” (Cadbury, 2000, p. 8); or as “the structure of rights and responsibilities among the parties with a stake in the firm” (Aoki, 2000, p. 11); but go beyond. We will tackle the organizational sociology literature and the comparative institutional theory (Aoki, 2001) to advocate CG as an “open system perspective” that depends on different organizational environments (Scott, 2003) and as “the institutions by which authority in a country is exercised” (World Bank, 2018). We propose this approach to better understand the interdependent practices between the managerial and institutional environments. Our objective is to explain the dynamic dimensions of CG in Lebanon, across the “multi-level corporate governance bundles” (Rediker & Seth, 1995; Aguilera et al., 2011; Yoshikawa et al., 2014).

## 2. LITERATURE REVIEW

### 2.1. On a theoretical level

The scope of conditions surrounding the general (CG) environment in Lebanon is relatively particular. This paper will, therefore, highlight the “Multi-level CG Bundles,” based on three theories: the agency theory, the resource dependency theory, and the institutional theory.

The board’s principal role is to advise, legally control, strategize, support, lead, delegate and monitor responsibilities to the managers in order to support the firm’s mission and goals (Nicholson & Kiel, 2004; Bonn & Pettigrew, 2009). This role of the board is explained by the “agency theory,” whereas lack of accountability of the board of directors and asymmetric or minimal information can lead to conflict. Providing access to the set of resources that each member can bring to the board such as capital, labor, and the use of expertise, knowledge, and information, (Certo, 2003) is explained by the resource dependency theory (RDT); since critical resources are basic sources of relational power (Pfeffer & Salanick, 2003). In this context, referring to outside directors helps “providing a quality of advice to the CEO otherwise unavailable from corporate staff” (Dalton et al., 1999).

Despite their importance, however, these theories fail to explore how institutional embeddedness affects CG. Firms cannot be isolated from their social and cultural context but should be complemented by the institutional theory, since a country’s management ideology and career patterns affect the role of management (Aguilera et al., 2011, p. 448). The Institutional theory argues the ownership structure or the good governance codes and regulations to be implemented to enable or constrain corporate governance mechanisms.

## 2.2. The agency theory: The conflict

Be it in a country or a firm, CG generates conflicts of interest (Aguilera, 2005). Traditionally, studied within the framework of specific models, such as Berle and Means' (1932) agency theory; the principal-agent conflict is an essential factor of the "incomplete contracts" that are in need of interests alignment between principals (risk-bearing shareholders) and agents (specialized expert managers) (Coase, 1937; Cyert & March 1963; Jensen & Meckling 1976; Fama, 1980; Fama & Jensen 1983; Williamson, 1975, 1985).

Centered on Berle and Means (1932), the agency theory acknowledges the authors' concern about the separation of ownership and control in organizations, which drove Fama and Jensen (1983) to postulate that the independence of outside directors brings more accountability and transparency to managerial control. Agency theorists, including scholars such as Johnson et al., (1996) agreed on the monitoring function of boards that describes the potential of conflict, which can arise from the separation between functions. For Jensen and Meckling (1976), this conflict is unavoidable as an individual is self-opportunist and self-interested, rather than altruistic. By trying to satisfying his/her self-interest through different activities, the agent could harm the principals' financial resources. The separation between ownership and management is the core of the problem. It can only diminish or be eliminated through two conditions, the first being if a single owner manages the firm, and the second if there is no separation between ownership-management. The latter is the case with the majority of family firms. Accordingly, to Jensen and Meckling (1976) family firms are different from non-family ones.

As such, the first Research Question can be proposed:

*RQ<sub>1</sub>: What are the specificities of ownership, control, and management in Lebanese firms?*

## 2.3. The resource dependency theory: Power and politics

Other authors went beyond and pointed to the role of resource dependency (RD) and the presence of outside directors who are willing to lead to better firm performance (Pfeffer & Salancik, 2003). The central role of the RD theory is to propose how organizational survival depends on its ability to procure the needed critical resources from the external environment. It also hinges on the power imbalance and the mutual dependence dimensions between parties and points to the five building blocks that can serve to minimize environmental dependencies and to producing inter-organizational power that have an effect on the organization behavior: mergers/vertical integration; joint ventures and other inter-organizational relationships; boards of directors; political action and executive succession.

Understanding the "ecology of the organization" (Pfeffer & Salancik, 2003, p. 1) helps managers reduce environmental dependency and uncertainty. Traced to Emerson's theory (1962) of power-dependence relations, power is "the property of the social relation; it is not an attribute of the actor" (p. 32). As risks can be prevalent in organizations where power is imbalanced, this premise determines how actors engage in constraint absorption operations in order

to reduce uncertainty and to increase the exchange conditions. In this context, studies detail how powerful partners in organizations (Emerson, 1962; Pfeffer & Salancik, 2003; Casciaro & Piskorski, 2005); and how powerful political ties (Hillman, 2005), and how government policies and regulation (Marsh, 1998; Hillman et al., 1999) in countries known for rampant corruption (Dieleman & Widjaja, 2018), can affect organizational resources appropriation, determine designed control mechanisms and influence "key strategic avenues open to firms" (Wang et al., 2008; Dieleman & Widjaja, 2018).

In the context of the co-opted political ties, Hillman et al. (1999) stressed that RD logic is based on the hypothesis that politicians on the board are associated with firm performance. The more the number of politicians, the better the political experience on the board and the better the market-based performance. While, on the other side, Dieleman and Widjaja, (2018) pointed to the importance of the process-based controls that can regulate the adverse effects of the political ties and prevent the escalation of undesired interference. Thus, two other research questions can now be proposed:

*RQ<sub>2</sub>: How do powerful partners and political ties influence organizational resources appropriation in Lebanon?*

*RQ<sub>3</sub>: How can exchange conditions increase in a country known for its rampant corruption?*

To answer these questions, however, another theory is to be taken into consideration, as the choice of a governance structure, on the micro and - or - on the macroeconomic levels, largely depends on the institutional environment.

## 2.4. The institutional theory: EG influencing CG

Although the new institutional economics (NIE) has a primary language, which is economics, it also combines various social-science disciplines that help understand what institutions are, what they serve and how they can change and can be reformed. Initially named by Williamson (1975), the (NIE) focuses on the collective rather than on the individual actions, prefers the evolutionary rather than the mechanistic economic approach, dictates the 'rules of the game' to be followed and facilitates particular exchanges between actors.

The (NIE) model is a "multilevel concept" (Dražković & Stjepčević, 2012, p. 28). While it defines institutions at three different levels: the macro level, the level of markets, and the firm level; in this paper, we will only explore it at two levels: the macro and the micro. We will follow this line of reasoning to shed light on how corporate governance of the firms is rooted and comes directly from the macro-level context (the two spheres being interdependent rather than separate).

Studies reveal that (NIE) is concerned with the choice of the "Governance structures" (Williamson, 1985; 1996) of the economic actors under a given institutional environment, as they can affect the economic performance and development. They can also impose environmental change over time and enable, guide and constrain individuals' behavior and institutional arrangements through formal and informal terms (Aoki, 2001). Rules, property rights, and guidelines express formal terms, whereas

informal terms mean conventions, norms, and codes of conduct (Aoki, 2001). "The difference between both - formal and informal terms - indicates the extent to which institutions are formally written down and are generally accepted and - or - legitimized. Institutions reduce uncertainty and extend time horizons of actors dealing with each other. They affect the costs of doing business, especially if corruption is endemic."<sup>2</sup> (Rowen, 1998, p. 9-10). Their objective is to constitute and restore equilibrium (Dixit, 2009). Therefore any attempt of institutional change can be slow.

Based on a "lock-in phenomenon" (Dixit, 2009, p. 19), the top-down reforms inside institutions can be difficult and their results disappointing, because of the lack of adequate knowledge and lack of appropriate incentives (Eastely, 2008; Rodrick, 2008; Dixit, 2009). Thus, although the "government has an essential role as partner and facilitator of reforms" (Dixit, 2009, p. 20), it may fail imposing good economic governance, especially in a country where both institutions and agents are predatory. Therefore, according to Dixit (2009), before conducting any change or reform in less-developed countries and transition economies, all investors, advisors and policy makers are called to firstly understand the structure and properties of the existing institutional equilibrium (p. 20), and then to conduct change either from a top-down perspective or from a down to top one (Easterly, 2008; Dixit, 2009). The first view admits that it is up to the economists to determine through 'pure reason'. It is also up to the optimal institutions to make recommendations to political leaders who should tear up old laws and make up new ones at any time in order to design new institutions from scratch. While in the bottom-up view, experts' role is more specialized rather than rationalized, as the latter can only assert "desirable change" gradually and evolutionary rather than revolutionary. In this context, Kostyuk (2005) points that neither national financial, nor industrial groups can be "engine of reforms" (p. 36); while Easterly (2008) asserts that the bottom-up perspective has more hopeful results than the delusory top-down one (p. 99). This leads us to two new Research questions  $RQ_4$  and  $RQ_5$ :

$RQ_4$ : *What are the current structure and properties of the existing multi-layer institutions in Lebanon?*

$RQ_5$ : *Is there any current reform regarding governance? How is it conducted: top-down or bottom-up?*

To best answer our research questions, one should look at the external environment, since it can impose challenges and opportunities. Studies have found that the external environment as the state of governance and corruption in a country has a direct effect on both the institutional and firm levels (Ackerman, 2004; 2006). In its turn, the institutional environment can have a negative impact on firms' governance (Batra et al., 2003) if lack of governance and high rate of corruption are observed. Moreover, state of governance and corruption goes hand in hand with low levels of growth on the macro and on the micro levels, as they can lower productivity, discourage capital flows and reduce the effectiveness

of industrial policies (Kaufman, 1997; Lambsdorff, 2003). Beneficiaries of this status quo are usually powerful (Krastev & Ganev, 2004) economic and political actors capable of blocking reforms (Ackerman, 2004, p. 2). They figure between the top political figures who would exploit their position and connections for private gain while EG and CG performance suffers (Gupta & Abed, 2002). All actors will be therefore invited to play "the game" according to the contracting one that is the prisoner's dilemma to reach the equilibrium and make governance mechanisms work (Dixit, 2009). Knowing that "everything is subject to numerous constraints of information, incentives, commitment, and rules of the political game" (Dixit, 2009, p. 8). The challenge is to identify a combination of strategies that can offer the best responses (Klein, 1999).

### 3. DATA AND METHODOLOGY

Based on five axes, a multimodal design helped us investigate and tackle the Lebanese multi-level CG Bundles. The five axes are as follow:

1. The starting point is a review of the most recent reports published by the World Bank, the IMF, CEDRE, and the LTA to improve our understanding of the EG determinants and to investigate the Top-level Governance and its impact on all other layers. Going from this starting point, a review of the Primary sources of Law, regulation, and practice relating to corporate governance, helped us understand the decisions and amendments required by the financial institutions to enable the firms to carry out their duties and functions of their governing bodies. We collected information from El Meouchi's law firm in order to take a full view of governance codes, understand how they are applied in Lebanon, and build a database, including formal and informal codes.

2. Then, we had to shed light on the papers written by scholars concerning the CG mechanisms and their interaction in Lebanon, in the non-financial and the financial firms. They allowed us to assess the construct of CG and its four components: transparency, audit committee, the board of directors and ownership structure; in small, medium and significant financial and non-financial firms.

3. However, we needed more data concerning the current situation of the SMEs especially that the majority of the studies were consistently done before the year 2013. We screened, therefore, their most recent practices in terms of governance via a quantitative study that helped us shed light on their specificities and their CG practices

4. For better interaction and in order to obtain more primary data, face-to-face semi-structured interviews were conducted with specialists in the field, including Dr. Saad Andary, Omar Christedes, Diana Kaissy, Laury Haytayan, Dr. Fadi Makki, Mr. Faisal Naru, and Pr. Jorge Marx Gomez. These in-depth interviews supported our study, engaged a valuable added value, and cemented the vertical top-bottom EG and CG bundles. The interviews were recorded and written. The purpose is to collect all important information and analyze it. The gathered information was integrated into specific files, using Windows 10. Each file covered one special theme. The gathered data and the rich and consistent information helped us to better understand the

<sup>2</sup> According to Roen (1998), costs of doing Business are affected as "they can increase if there are uncertain or poorly structured property rights, if contracts are weakly protected if information is scarce and access to it highly skewed and if corruption is endemic."

interaction between the EG and the CG; and the interplay between the top and the bottom levels in Lebanon. It also helped us collect the appropriate actions that are needed to fix the pillars of EG and CG

in Lebanon. To mention that the organizations that can directly influence the possible bottom-up reform in Lebanon and are involved in transparency issues, in our study, are the ones listed in Table 1.

**Table 1.** Participants in the study

	<i>Participant</i>	<i>Position</i>	<i>Date and length of interview</i>
BDL	Dr. Saad Andary	Vice-governor of the BDL. Former chairman of the International Chambers of Commerce's Anti-Corruption Commission	4/1/2018- 2 hours
ArabNet	Omar Christidis	CEO and Founder	14/3/2018- 2 hours
LOGI	Diana Kaissy	Executive Director	13/3/2018 - 3 hours
NRGI	Laury Haytayan	Senior Officer	4/17/2017 - 1 hour
Nudge-Lebanon	Dr. Fadi Makki	Founder of Nudge Lebanon and the Consumer Citizen Lab	12/5/2018 - 1 hour
Nudge-Lebanon	Mr. Faisal Naru	Serves on the Nudge Board of trustees. Senior economic adviser at the OECD	12/5/2018 - 2 hours
ARTEMIS	Pr. Jorge Marx Gómez	Artemis Researcher. Chair in Business Informatics at the University of Oldenburg	3/5/2018 - 1 hour

We count the Banque Du Liban (BDL)<sup>3</sup>, the Arabnet<sup>4</sup>, the Lebanese oil and gas initiative (LOGI)<sup>5</sup>, the Natural Resource Governance Institute (NRGI)<sup>6</sup>, the Nudge<sup>7</sup> and ARTEMIS<sup>8</sup>. The sample chosen is a "criterion [that is] useful for quality assurance" (Kuzel, 1999).

5. Finally, as we propose a bottom-up reform, the fifth axis will provide guidance and three systematic actions to be implemented to shifting to a new standpoint despite the complex Lebanese context.

#### 4. THE FINDINGS

Using the multimodal design and its synergy within a sustained program of inquiry permitted an ideal opportunity to provide a solution-based approach and to discuss the possible bottom-up reform that can help to achieve the triple aim outcomes of governance, transparency and accountability.

##### 4.1. The first axis: The specificities of EG and CG indicators on the institutional level<sup>9</sup>

To understand the whole picture in a country such as Lebanon, one should go back to the national government that constitutes the EG and CG

umbrella. The six governance indicators being: voice and accountability, political stability; governance effectiveness; regulatory quality, rule of law and control of corruption. In Table 2, we selected cases of four years with a six-year interval to shed the light on the variability that occurred on governance indicators in Lebanon from the year 2000 till the year 2016.

**Table 2.** Governance indicators in Lebanon

<i>Indicators</i>	<i>2000</i>	<i>2006</i>	<i>2011</i>	<i>2016</i>
Voice and Accountability	0.44	0.48	0.39	0.37
Political stability and absence of violence / Terrorism	0.40	0.10	0.20	0.20
Government effectiveness	0.50	0.50	0.50	0.38
Regulatory Quality	0.30	0.50	0.55	0.55
Rule of Law	0.47	0.34	0.41	0.28
Control of corruption	0.25	0.25	0.25	0.25

*Source: Based on the Economist intelligence unit (2018)*

Table 2 shows that except a slight increase in the regulatory quality and constant control of corruption, all other indicators dropped. More reports such as the 2017 Corruption Perceptions Index ranked Lebanon at the 143rd spot out of 180 countries in the MENA region (TI, 2018). The Lebanese Transparency Association (LTA) report (2008) confirms that corruption exists in all its forms in Lebanon, including patronage and bribery and points to the weak legal framework and political and confessional interference in competition for state resources. Transparency International (TI) report (2012; 2018) asserted that there are no indications of a "strong political will" to fight corruption as the countries governmental institutions are the most corrupted. To Karam (2013), "Lebanon is too corrupt to care about corruption."

More, the World Bank (2017), the IMF (2018) and the CEDRE (2018) report point to the dramatic situation of CG in Lebanon. The underlying economic situation has not changed since the end of the civil war and remains challenging (IMF, 2018). A severe need for promoting structural reforms is essential as corruption is heading significant levels. According to specialists, an anti-corruption regulatory framework should be made effective to fight corruption and protect whistleblowers making the illicit wealth law more effective, and that "by making the asset declaration system for senior

<sup>3</sup> The Banque du Liban (BDL) was established by the Code of Money and Credit promulgated on the 1st of August 1963, by Decree no. 13513. It started to operate effectively on April 1, 1964.

<sup>4</sup> The Arabnet was founded in 2009, the vision of ArabNet is to help grow the web and mobile sectors in the Arab world through its activities. It also aims to build business bridges across the MENA, stimulate the growth of the Arab digital knowledge economy, and support the creation of new businesses and job opportunities for aspiring youth.

<sup>5</sup> The Oil and Gas Initiative (LOGI) is an independent NGO aiming to develop a network of Lebanese Oil and Gas Experts. LOGI is working to connect Lebanese experts to promote effective governance and build a sustainable and healthy oil and gas industry.

<sup>6</sup> The Natural Resource Governance Institute (NRGI) helps people to realize the benefits of their countries' endowments of oil, gas, and minerals. Its objective is to promote accountable and effective governance in the extractive industries.

<sup>7</sup> Nudge Lebanon is a non-governmental and non-profit initiative working to apply behavioral insights to the policy challenges that Lebanon faces.

<sup>8</sup> Artemis is The European Research and Transfer Network for Environmental Management Information Systems.

<sup>9</sup> The six CG indicators, according to the World Bank are as follow: 1. Voice and Accountability: It is the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and free media. 2. Political Stability and Absence of Violence: the likelihood that the government will be destabilized by unconstitutional or violent means, including terrorism. 3. Government Effectiveness: the quality of public services, the capacity of the civil service and its independence from political pressures; the quality of policy formulation. 4. Regulatory Quality: the ability of the government to provide sound policies and regulations that enables and promotes private sector development. 5. Rule of Law: the extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. 6. Control of Corruption: the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Retrieved from: <http://web.worldbank.org/archive/website01020/WEB/OCN-3.HTM>

public officials (and their family members and associates) public, with a system of audits, and combined with measures for banks to control and report suspicious activities related to politically exposed persons; establishing and adequately resourcing the planned anti-corruption body with sufficient enforcement powers; and enhancing fiscal transparency” (IMF, 2018).

Back to 2015, the World Bank report had pointed to the fragile and dysfunctional political system and state that is unable to regulate conflict and exercise sovereign authority. It is paralyzing decision-making and governance while strengthening political power, and privileging resources and state to benefit sectarian interests. These social relationships resulting in “uneven growth, opaque management of public resources and widespread corruption” (p. 30) had their impact not only on the public sector, but also on the private one as well. In other words, they led to clientelism and had their impact on the distribution of resources. A small segment of the population called the “affluent Elite” which includes the “economic and political actors,” as stated by Ackerman (2004) holds, manages and distributes the resources.

#### **4.2. The second axis: CG mechanisms in the non-financial and financial firms**

According to the IFC (2001), CG matters to both banks and non-financial firms as it can improve access to capital and leads to financing on improved terms. It produces superior leadership as well as efficient work processes and information flows and increases compliance and accountability while decreasing conflict. It creates confidence and builds and/or restores investor trust. More, improved CG leads to easier access to credit and finance availability at reasonable terms and lower cost, especially at the small and medium enterprises (SMEs) level. As for the Code of conduct for Lebanese firms: the primary source of law, regulation, and practice relating to CG in Lebanon are the Code of Commerce (LCC) issued on 24 December 1942 by virtue of Law Decree No. 304 (amended by several subsequent laws and law-decrees).

##### *4.2.1. Concerning the small, medium and large non-financial firms*

CG in Lebanon is not yet well developed, despite marginal improvements taken by the government, especially regarding composition and operation of boards of directors (Safieddine, 2005; Salloum et al., 2013a). SME's have witnessed difficulties in enforcing the few CG protection existing principles, as there are common perceptions and misconceptions that CG is of little importance: (1) CG in Lebanon do not support “transparent corporate culture and protocol” (Salloum et al., 2013a, p. 61); (2) only ten companies are listed on the Beirut Stock Market and without widely traded shares (Saidi, 2004; Chidiac el hajj et al., 2016); (3) studies concerning the structure of the boards and characteristics of board members, show that firms are serious with regard to establishing a truly

independent board (Safieddine, 2005); (4) there is neither full separation between ownership and control, nor applicability of the concept of independent outside directors, as article 153 in LCC does not provide” principles of separation of the roles of the chairman of the board from those of the general manager” (IFC, 2004), nor clearly defines the role of outside directors (Salloum et al., 2013a); and (5) the concept of separating between ownership and control is not realized (Saidi, 2004; Salloum et al., 2013a). They have to deal with a “set of existential issues”, such as the separation between ownership, management and succession to ensure their survival (Saidi, 2004, p. 5). More, “the board members hold the same family name as the owners without forgetting the possibility of the CEO duality” (Gammal et al., 2018).

However, despite these challenges, the level of growth of family businesses in Lebanon is high in contrast to Bernice and Folker (2007) results. Al Chaarani's (2013) study revealed that their success is due to different features including planning for succession and using Emotional intelligence, but not those of governance.

In a country that provides a unique living laboratory of a living family business development; families predominate in politics and society but also in businesses in 95% of all private sector companies; a tradition that has been traced to feudal times, and is still very pervasive till date (Salloum et al., 2013a; El-Kassar et al., 2018). According to Kaslow (2006), it is believed that family businesses in Lebanon represent 85% of the private sector, accounting for 1.05 million out of 1.24 million jobs. Instead of being market-driven pursuits, they are a means to heightening a family's social status. They tend to run and manage their business without following or recognizing the importance of CG and social responsibility. To define that any firm with a dominant shareholder is a family firm and that to Anderson and Reeb (2003).

There is consistency with the World Bank report (WB) (2004), which emphasizes that some developed economies corporations, especially the large ones, ownership and control are in the hands of powerful dominant wealthy families, even when ownership concentration is not high enough to merit such control. Moreover, high levels of concentrated ownership and control, versus low levels of disclosure and transparency had been observed in the MENA region including Lebanon (Piesse et al., 2012). Family-owned businesses do not support transparent corporate culture and protocol, while a lack of independence required for monitoring the firm's activities prevails (Salloum et al., 2013a). Serious governance problems can be found in the CG of such firms that differ from those of others, which can affect not only the micro but also the macroeconomic performance.

In line with the World Bank report (WB, 2004, p. 6), Lebanese firms are allegedly free of agency problems (Salloum et al., 2013b). They suffer from tunnelling, meaning “transfer of wealth among pyramid firms to advantage the controlling shareholder” (Johnson et al., 2000, p. 6; Piesse et al. 2012). Unlike the WB report (2004), they do not suffer from entrenchment agency problems, as family managers continually update their knowledge

and skills (Salloum et al., 2013b). As for the diversity issue, studies revealed that a firm with female director is negatively correlated with financial distress (Salloum et al., 2013a), which reflects the positive role of women even though they still confront many barriers that prevent them from occupying leadership positions (Jamali et al., 2005; Chidiac El Hajj et al., 2017)

#### 4.2.2. Concerning the Lebanese banks

Lebanese banks are to follow BDL decisions (2006; 2011)<sup>10</sup>. They should (1) work hard to comply with the principles issued by the Basel Committee; (2) publish a summary of own Code of CG on their website and in their annual report specifically for those who are listed; and (3) provide the Banking Control Commission (BCC) with a soft and a hard copy of such Code.

Lebanon's 62 banks are predominantly managed by founding families. Although they are not always the major shareholders, they still dominate the sector, control the lion's share of the country's debt, and influence decisions politically (Chalhoub, 2009; Cochrane, 2010).

Results of Chalhoub (2009) study revealed that five factors are key performance drivers in the Lebanese banking sector: (1) the embedment of governance concepts into daily management practice, (2) the use of governance experience and literacy as a prerequisite for senior positions, (3) the consistent appliance of the code of ethics, (4) the shareholders engagement in active participation, and (5) the enhancement of accountability.

Chahine and Safieddine (2011) study on 749 solid years of data on the banking industry in Lebanon from 1992 to 2006, got same results as Levin (2004) who argued that politically powerful families control the banks and the political system. Regulatory policies are frequently used to impede, not support, effective corporate governance. The study also admitted the difficulty of accurately measuring board's independence in Banks. It examined the effect of various CG mechanisms on bank performance in Lebanon as measured by the Return on Assets (ROA) and Return on Equity (ROE). The study showed that performance has a positive association with the board size in Lebanese banks. They benefit from the network of their local insider-directors to generate high operating performance.

### 4.3. The third axis: A quantitative study of collecting primary data concerning the current situation of the SMEs in Lebanon

#### 4.3.1. The sample

As aforementioned, few studies showed interest in conducting researches concerning the corporate boards, their role and practices in Lebanon. To better understand boards, we conducted a survey on 500 randomly chosen SMEs in Lebanon. Only 230 owner-managers were willing to answer our questions, which constituted a 46% response rate.

The questions were guided by the review of an extant literature on the topic of corporate governance and family businesses. It included different main sections, including the role and share of independent, outside directors; the size of the board; the professional expertise of the board members; the CEO-Chairman duality; the role of women on the board; and other. Some questions consisted of multiple choice questions<sup>11</sup>, whereas others considered the yes/no questions to simplify the coding.

#### 4.3.2. The family and the ownership control

Our survey showed that there is a significant family-centered approach to owning and managing businesses in the surveyed companies, whereas 78.9% of them are run by the first generation owners, 13.4% of them are run by the second generation and the remaining few, the 7.7% are run by outside managers. The start-ups are founded on a relationship-based system. Their owners value unrestricted control over their companies. They rely on debt and a conservative financial management rather than on equity financing, whereas 72.3% of the respondents argued that they are afraid to lose control if they drive an open strategic and operational transformation to their companies. Because of their fear of loss of control, they prefer to conduct, up to their knowledge, the least expensive form of finance, which is debt-based rather than equity-based; keep their capital based closed; keep a low appetite for outside investors and remain small family-owned businesses rather than large ones. As a conclusion: commercial banks dominate the SMEs funding scene with costly high collaterals; while Kafalat<sup>12</sup> tries to reduce the risks taken by the banks and the new circular 331 -issued in August 2013 - tries to encourage the financing of startups, incubators and accelerators through the banking and financial institutions.

Till now, little has been done in terms of CG practices under the current concentration of ownership; especially that one of our major findings was that the majority of the respondents lack awareness of the Lebanese code of CG. A large percentage going up to 78.6% confirmed that they are not familiar with the main requirements of the CG practices.

#### 4.3.3. The board of directors

Our survey found that the majority of the companies do not have an active board of directors. More, the following main characteristics were observed:

1. As above mentioned, most of the SMEs are family businesses with concentrated ownership structures and the unitary board model. Family-business-owners own significant shares and influence important decisions, particularly the election of the chairman and CEO. The duality chairman/CEO is largely practiced while the

<sup>11</sup> For the purpose of the study, multiple answers were possible.

<sup>12</sup> Kafalat supports the start-ups and the SMEs to get commercial bank funding by providing guarantees for loans granted by commercial banks. Eligible sectors: industry, agriculture, tourism, high technology, traditional crafts.

<sup>10</sup> BDL decisions No. 9,382 of 26 July 2006 as amended by Intermediary Decision No. 10,708 of 21 April 2011.

majority of the directors are family members holding senior management positions; independent directors being an extreme minority. Moreover, the findings revealed that under the current concentration of ownership, it would be difficult to transform the “rubber stamp” current boards into engaged ones.

2. 78% of the interviewees are experienced and educated persons who already have jobs. They are opportunity driven seekers who try to build sustainable businesses, in order to secure safe jobs<sup>13</sup> for the second generation in the midst of their fight against high unemployment and low economic Lebanese growth.

3. Around 72.3% of the SMEs, do not conduct efficient business governance, while only 12.6% of them do. The rest gave no answer but was confused by the question. In general, most owners strongly believe in the importance of CG but argued that CG “cannot apply” on SMEs and that it is a tailored theory for the solely large size companies. They do not, therefore, have a written or a verbal code of CG.

4. The 12.6% of the companies which conduct efficient business governance stated that their average board is composed of 6 members, which is in accordance to the CG best practices, according to the IFC (2011). Their board of directors is active, involved in decision making and conduct yearly board evaluations.

#### 4.3.4. *The role of women*

Our survey found a low participation of women in Leadership positions, mainly due to the Lebanese patriarchal culture, and to motherhood requirements. According to 89.9% of the interviewees, the issue of gender at the board level is not a priority, as second-generation employment and social status come first. Nevertheless, women entrepreneurs and business owners peak between the ages of 35-44 and count around 26.7% of business owners.

#### 4.3.5. *Discussing the firms’ resources, performance and governance challenges*

Three factors are to be considered when studying EG and CG in Lebanon:

1. The particularities of Lebanese family firms. For, as they expand, they face unique performance and governance challenges. Despite all odds, especially those related to the current economic and political environment, family-businesses in Lebanon were able to survive because of their culture and their ability to achieve strong business performance on the one side and to maintain family commitment, ties and harmonious relations within family members on the other. These characteristics help lowering employees’ turnover and improve productivity. More, they nurture family values, expand a sense of pride and transfer power to the next generations. However, family conflicts over money and over managing family’s wealth, not to mention problems related to the succession of power from one generation to the next and non-

regulating each family member’s role can create acute and severe conflicts. The rational argument though to create balance is through corporate governance.

2. The power of the wealthy families who are controlling Lebanese institutions, as they own the majority of the voting shares in the firms whether financial or non-financial. Given that the Lebanese commercial law allows shares to be issued with unequal voting power, the latter can get more power and control over business decisions (Salloum et al., 2013a).

3. The limited resources and a limited number of resource providers in Lebanon in terms of capital and funds: the banking sector in Lebanon being the primary financing source for most businesses.

Given the limited resources in Lebanon, the distribution of firm value and corporate control is highly political and is coupled with cognitive maps of what to expect from the firm (Fiss & Zajac, 2004) and of national institutional characteristics (Aguilera & Jackson, 2003; Aguilera & Yip, 2004). To mention that at the end of September 2017, the 14 alpha banks in Lebanon were held 87% of the \$227 billion in assets, while their profits reached US\$ 2.4 billion, growing by 6.0% year-on-year (BankData, 2018). However, because they are the primary lenders to the public sector, Lebanese banks were exposed to a downgrade with ratings at B- (S&P and Fitch) and B2 (Moody’s); as their sovereign exposures became very high with a total exposure to the sovereign more than six times Tier 1 capital (FSA, 2016). Therefore, the government would not want to make them angry, because bankers are more powerful than politicians. The government and the financial sector are intertwined, as some political families who own the Banks are those who govern (Cochrane, 2010).

Nevertheless, on a private sector scale, the Lebanese banks maintain long-term relationships with their clients and have immediate access to their financial conditions (Edwards & Fisher, 1994). This relation gives the banks the power to negotiate and restructure the firms. Because of the scarcity of capital resources, Chahine and Safieddine (2008) study revealed that the Lebanese banks are both active monitors of and resource providers to their corporate clients. At 94.5% in 2015, the ratio of credit to the private sector to GDP is the highest in the region (FSA, 2016). Since 2012, the BDL has deployed incentives to foster lending and support economic and different sectors growth. In this context, and as aforementioned, the Lebanese SME’s are benefiting from unique programs, and are relying on the circular 331 that was launched from the BDL to finance the start-ups by making equity finance solutions available.

#### 4.4. **The fourth axis: A qualitative study discussing the bottom-up reform**

To integrate and raise governance dimensions on its institutional and firms’ levels, Lebanon must work on some specific niches where it holds a comparative advantage. Strengthening the essence of governance onto sectors that are still in their embryonic phase can restore sound, accountable

<sup>13</sup> Most of the jobs are in the business services (32%), in transforming sectors and in commerce (47%).

and transparent governance in a legal framework. Our investigations revealed that two sectors that are still in their first stage of development respond to our concerns: the knowledge and the oil and gas sectors. In the middle of corrupted and very weak environmental governance, seeds of reforms had been observed in both, as argued by our interviewees.

#### 4.4.1. The VC-SMEs bottom-up reform

Venture Capital (VC) is now seen as an essential intermediary in financial markets. Gompers and Lerner (2001, p. 145) argued that “it provides capital to firms that might otherwise have difficulty attracting financing. These firms are typically small and young, plagued with high levels of uncertainty and large differences between what entrepreneurs and investors know”. The relation between the investor and the manager should therefore be based on complete contracts, as mentioned by Mr. Omar Christidis who acknowledged that an influential role is played by the investor to impose some specific conditions, including the board structuring. Mr. Christidis also added that while depending on his skills, knowledge, and experience, the investor has the power to assist in the development of the new firms and to add value to the company. His main objectives being settling order, diminishing conflict, and orienting managers with the expectation of high rewards and benefits.

The nature of the relationship between the two parties Bank-Board, VC-Board, is based on control, power and resource dependency. The Board and managers follow whoever has the funds, orientates and monitors. Power is exhibited for the general profit of all parties.

In shaping governance and management, a whole set of directives offer fruitful opportunities to the firm and opportunistic behavior and conduct. Through BDL circular 331, many companies who invest in the knowledge economy can find the necessary funds to bring their innovative ideas to life. Lebanese banks are to inject in local knowledge oriented start-ups up to \$400 million while VCs would be investing in \$150 million. The objective is to move Lebanon towards a knowledge-based economy and to create jobs to battle the 36% unemployment rate, despite the infrastructure issues.

Mr. Christidis and Dr. Andary stated that the Lebanese financial market had long suffered from an equity gap, and that the only fund channels were banks and kafalat. Nowadays, however, circular 331 permits thousands of SMEs to find the appropriate funds. Such a reform has a dual objective: It is not only pumping money into the ecosystem but is also restructuring the firms, i.e. VCs owners risking their entire investments that may need time to yield a turnover. They are also expected to consider an exit in 5 year time. Therefore, banks and kafalat are asking Lebanese firms for details concerning the most recent trading figures, managing teams and their skills, as well as the way they operate safe and sound corporate governance. According to our interviewees, the banking sector in Lebanon is the primary financing source for most businesses. Being

the most active sector in CG mechanism -due to the weak external financial monitoring- it has the right and the power to oblige other actors to put more efforts and to become involved in building up CG standards. This can be considered as an opportunity, as the SMEs in Lebanon are to follow the CG practices in general; and transparency of financial data in specific if the BDL imposes it.

In the wake of this urgent need for a proactive initiative by the banking industry, our interview with Dr. Andary revealed an inside reform of the banking sector as well. A CG committee was created end 2009 in cooperation with the International Financial Cooperation (IFC) to ensure the establishment of good governance in the Lebanese banks. Based on the Basel committee guidelines on CG, the banking sector is aware of the importance of sound governance. It is critical not only to the proper functioning of the banking sector but also of the whole economy<sup>14</sup>. Through years, credible financial reports and robust internal controls had been observed. However, more efforts should be made. According to Dr. Andary, board members' independence is still insufficient, the family structure of the banks is still robust; the mechanism of succession heritage is still a struggle, and the tendency to taking more care of the shareholders' interests than to the stakeholders' prevails. These elements affect not only the banks' social responsibilities (CSR) and roles, but also primarily the female representation on boards.

Upon the governor's call, Mr. Ryad Salameh, to oversee reform, increase board members responsibilities, and enhance their ability to guide sound strategies; the bank board's members are weekly invited to specific workshops. These training courses help them improve their skills, expertise (financial, technology, risk and human capital), and abilities to control audit, risk and compensation committees. They also strengthen their front-line accountability and control their risk-appetite and undergo a transformation, which can help banks approach a tipping point in governance. Even the boards' members who are already familiar with the CG culture are profiting from these workshops, according to Dr. Andary.

On another side, the BDL is stimulating the government, the legislators and the public authorities (ministries, parliament members, and official stakeholders) to follow this mindset, to cooperate, and to act responsibly and proactively. It is also encouraging the private sector, including family businesses to invest in funding the startups and in following the CG principles. This call for a bottom-up synergy is useful but needs to be institutionalized.

As for Dr. Makki and Mr. Naru, they both argued that there is a growing appetite for the NGOs the private sector, the experts and the fund providers in Lebanon to apply behavioral insights to policymaking. However, knowledge should be firstly exchanged and shared between all bottom level actors to create positive externalities, and then transferred and applied throughout the micro

<sup>14</sup> Refer to: the corporate governance principles for banks issues 8/7/2015; Principles for enhancing corporate governance issued 4/10/2010; Enhancing corporate governance in banking institutions 13/2/2006; to BDL circulars n 106 and 112.

and the macro levels to generate useful governance. Leaving some space for appropriate actions to improve behavioral governance initiatives – while shedding the light on their long-term impact, on the usefulness of transparency and accountability, and on the importance of reporting governance mechanisms – can decrease Institutions' resistance and engage them in policy-making while developing a set of tools that can fix the complicated situation in Lebanon.

#### 4.4.2. The oil and gas sector bottom-up reform

Interviews with Ms. Diana Kaissy and Ms. Laury Haytayan revealed that the opportunities that would be given by the oil and gas sector could be tremendous; as their revenues would decrease the imported energy needs, improve the balance of payments, reduce the public deficit, enhance the infrastructure investments and the construction activity, raise the jobs opportunities and stimulate the economic growth. Fear is that neither the EG nor the CG would be implemented.

Ms. Haytayan stressed that good governance principles including, transparency, accountability, participation, and the rule of law could support turning revenues from natural resources into sustainable development. While Ms. Kaissy insisted that if good governance is to play a vital role, its main principles have to be applied across all of the decision chain (please refer to NRC's decision chain<sup>15</sup>).

To Ms. Kaissy, the problem in Lebanon is that the country is still not eligible to complete and produce its Resource Governance Index<sup>16</sup>, and that good governance practices are absent at the national level, and that the civil society does not play its role as watchdog to monitor and hold to account its governments and all companies that are operating in the country. Therefore, citizens will not be able to benefit from revenues from their natural resources, which would lead to the so-called "resource curse" as the civil society will fail to take the lead in monitoring how the revenues from the natural resources are spent.

More, the government needs to ensure that good governance is applied through putting in place robust laws, regulations, and policies. In Lebanon, the legislative framework that was put so far by the government is robust, but there is a definite room for improvement. It is up to the government to put in place a National oil and gas strategy that can ensure a comprehensive vision regarding how natural resources revenues will be used. Hence, LOGI is demanding for such a strategy to be displayed before it proceeds into developing the sector. In addition, the government has to present a solid public consultation process that ensures that citizens, civil society, experts and fund providers are all consulted when drafting laws, regulations, and policies that support the sound development of the sector. Therefore there is a need to focus on the following pillars: (1) the legal framework of the sector; (2) the

environmental aspects/impact; (3) the fiscal framework; (4) the advocacy; (5) enabling civil society to use transparency and accountability tools such as the Extractive Industry Transparency Initiative-EITI<sup>17</sup>; (6) and value creation, meaning: job market needs and economic opportunities.

Both interviewees stressed that a bottom-up reform is still possible in this period of corruption. This goes in line with the IMF (2017) report, which expressed the urgent need to develop a framework for fiscal policy, to report resource revenues transparently and comprehensively, and to strengthen the institutional framework (Fedelino, IMF, 2017).

Moreover and according to the interviewees, it would be up to the Multinational Companies (MCs) to impose the new rules of the game, to dictate the Laws to be followed and to sign contracts that can introduce accountability, transparency and sound governance. For those who have the power and the funds, can impose the needed regulations for sound EG and CG. It is important to note that a proposed law aiming to ensure transparency in oil and gas contracts was approved on September 24, 2018. According to LOGI<sup>18</sup>, this law can be considered as an excellent cornerstone for establishing accountability and transparency in Lebanon's petroleum sector, if implemented.

In the same framework, Pr. Jorge Marx Gómez, who is working on a decentralized energy system project with the European Union (EU), also called for a radical change as he suggested going from centralized to decentralized systems. Also suggested making decentralization the starting point to divide the political center into small groups; to bring them closer to people; to make them play an important role in building sound governance mechanisms, while also incorporating marginalized stakeholders such as women and others. He said that one of the most effective solutions that can be applied in the Lebanese case is to join the NGOs, the private sector and the individuals' forces. This cohesion can impose a bottom-up reform, implement new transparency regulations, increase disclosure, and autonomously raise governance.

#### 4.5. The fifth axis: Shifting to a new standpoint in a complex context

In reference to the CEDRE report (2018), the Lebanese Government and institutions – exception made for the BDL – are called to implement a strategic infrastructure structural and sectoral reforms (such as fighting corruption, strengthening governance and accountability, including public finance management, modernizing procurement rules, reforming customs and improving public investment, etc.) to be able to improve the functioning of State institutions and to attract new investments.

Is that possible? According to all interviewees, it is. How? The only practical way to do it is by implementing a Bottom-up reform.

<sup>15</sup> [https://resourcegovernance.org/sites/default/files/nrgi\\_NRC-Decision-Chain.pdf](https://resourcegovernance.org/sites/default/files/nrgi_NRC-Decision-Chain.pdf)

<sup>16</sup> <https://resourcegovernance.org/analysis-tools/publications/2017-resource-governance-index>

<sup>17</sup> [www.eiti.org](http://www.eiti.org)

<sup>18</sup> [Logi-Lebanon.org](http://Logi-Lebanon.org)

Institutions constitute equilibrium, and institutional change means shifting to a new equilibrium. In a complex social context, such as Lebanon, attaining a new equilibrium requires different elements: (1) for the rules of the games to change; (2) for the actors to play in a cooperative game to benefit from the possibility of building a coalition between them to align their incentives; (3) for the laws to be amended while adopting new agreements between the political and corporate elite on the governance model to adopt (Gordon & Roe, 2004); and (4) for the Pay-offs to be well-defined. Nevertheless, new combinations that may occur will affect those who would lose from change. Therefore, in line with Dixit (2009), we would suggest to compensating them in order to overcome their resistance in the existing political process; and to create collective knowledge of actions to sustain the new equilibrium.

This would be possible if only new contracts or licenses are issued without bribery and if executive laws are implemented. Contracts should be therefore fulfilled without bribery and without violating the rules (Dixit, 2009). If reform is to be implemented and in line with Dixit (2009), anyone who engages in dealings with a cheater should be he/she, labeled as a cheater and ostracized and so on.

As analyzed, the whole context may present difficulties in a country that is corrupted as (1) the

process would be slow; (2) the old institutions would persist as a lock-in phenomenon (Dixit, 2009); (3) because of the lack of appropriate incentives for the existing institutional structures to reform themselves (Easterly, 2008; Rodrik, 2008; Dixit, 2009), and (4) because some interest groups and family-owned businesses would always support the status quo and the weak governance (Dixit, 2009), as they procure them private benefits (Zattoni & Cuomo, 2008). However, the Bottom-up reform can create the platform of the needed incremental revolution that can enhance sound EG and CG, if only appropriate actions are taken.

In this context, *three primarily actions* are to be implemented:

#### 4.5.1. Identifying the players who have the power to implant the seeds of change

According to Abdou et al., (2017), we can model the game according to the following elements: (1) the number of players; (2) the set of strategies for each player; and (3) the payoffs. So far, this game includes 3 players. We will call them the B player (BP) in reference to the bottom level player, the M player (MP) in reference to the medium level player, and the T player (TP) in reference to the Top-level player. Table 3 below will show the different actors, strategies and payoffs.

**Table 3.** Modelizing the game and the actors

<i>Player</i>	<i>Identity</i>	<i>Strategy</i>	<i>Pay-offs</i>
BP1	NGOs (imposing rules to the gas and oil sector)	SBP1= {Support Governance including anticorruption; or not}	Not defined
BP2	VCs (imposing rules to the SMEs and knowledge sector)	SBP2= {Procure funds and investment; or not}	Not defined <sup>19</sup>
BP3	Multinationals (imposing rules to the gas and oil sector)	SBP3= {Procure funds and investment; or not}	Not defined
MP	Policy advisors and Law makers	SMP= {Prepare and enforce laws; or not}	Not defined
TP	Institutions	STP= {Solves EG and enforce CG; or not}	Not defined

Notes: <sup>19</sup> To keep in mind that the WB ranked the knowledge economy 4, on a scale from 0 to 10.

To play the game, we will assume that the MP is not a player as we will suppose that the Laws will be set off to begin the game. We will also note that the game is not cooperative because the players choose their strategies without the knowledge of the other players. The payoffs are the money and investment for each player given a profile of strategies.

To find the optimal outcome of the game, we can refer to the Nash equilibrium, using the Tensor form of a game proposed by Abdou et al., (2017). Nevertheless, instead of winning a (1; 1) position reflecting the selfishness of the actors, we propose to back up the model with the Berge equilibrium, whereas a (3; 3) position could be reached, built on altruism and equity, and benefiting all players. As above mentioned, two conditions are to be added: (1) the actors should be playing in a cooperative game and (2) Pay-offs are to be well defined.

#### 4.5.2. Decentralizing the system

Instead of creating a solely National arena lead by the "Elites," small areas can secure a solid power platform that can challenge the Institutions. The results of our findings revealed that policymakers

support decentralization, as it is the tool that can help restructure the governance architecture; redistribute power, authority and responsibilities; improve administrative effectiveness; increase local autonomy and participation; reduce inequities and regional tensions; increase cost efficiency; control resources, and improve accountability.

#### 4.5.3. A call for a behavioral based governance:

Based on Cyert and March (1963), coalition groups from NGOs, the private sector and the civil society can work together to transform governance whether EG or CG towards a more participatory and democratic model that can reshape and re-institutionalize the systems. The probability of reaching "satisfying" rather than "achieving optimal results" and entire outcomes, "satisfying" could reduce the profits from opportunistic behavior in governance. By expressing, considering and arguing their thoughts, cohesive groups can network governance, create value and influence bottom and upper-level perceptions. For, and as expressed by Ariely (2009), the unblinking faith that we gave to the invisible hand has damaged our institutions and organizations. Therefore, we should think through

the lens of the new behavioral economics to anticipate irrational behavior and avoid damaging results like the ones we are witnessing in Lebanon.

## 5. CONCLUSION

Presently, there is an ongoing concern about how to restore governance in Lebanon. As high levels of corruption had been observed, the weak contemporary state of Lebanon will be unlikely to manage the public debts, the rising unemployment, and the lousy infrastructure or even the new burgeoning sectors such as the knowledge and the oil and gas ones. Failing in implementing sound governance processes across the multi-level bundles in Lebanon can lead the whole country to systematic risk. Therefore, two main elements are urgently required:

1. Effective leadership that possesses a clear vision of the desired outcomes is urgently needed.

2. Implementing sound CG and microeconomic values that can help to encourage the proper performance of institutions and increase EG.

Recent discussions of how to allocate resources to developing countries admit that developing countries with poor institution functioning are to be excluded from any external aid (Ackerman, 2006). The challenge is that developed countries do still believe that institutional reform is possible in Lebanon, and aids are still flowing towards it (regarding CEDRE, 2018). Therefore, a bottom-up reform, if possible, can create a sort of a

butterfly effect that can spread its effect to the whole country. The Bid is to implement it incrementally while surpassing resistance and while switching the invisible hand into a visible one.

This research is not without limitations, as it is still early to predict the outcome through more figures and numbers, as they are scarce. However, it can be said that interventional strategies can help surmount the obstacles and put the country, its institutions, firms and banks on the right track of governance. In the Lebanese resource-constrained context, this can open doors to new studies such as:

1. The implementation of policy coherence, coordination, and partnership at all levels in the private, public and civic organizations; as well as the use of information and communication technology to facilitate coordination, accountability, effective monitoring and evaluation.

2. The willingness of the family-businesses in Lebanon to establish a sound family governance system that defines the rights and responsibilities of family members and shareholders, as well as of the board and the management team.

3. The willingness to break from corruption behavior, whilst achieving the needed bottom-up reform throughout the institutions.

A new and sound Lebanese economic model coupled with proper governance and stability in the country may emerge from this bottom-up reform, of course, if well implemented. The challenge is to find if this may be another missed opportunity.

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