



**University of  
Reading**

**THE IMPACT OF BOARD COMPOSITION,  
CHARACTERISTICS, AND LEADERSHIP STRUCTURE ON  
STRATEGIC DECISIONS: A CASE OF KUWAIT'S  
NATIONAL OIL COMPANY**

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## ABSTRACT

This study explains how board composition, board characteristics and board leadership structure impact strategic decisions in the board of the Kuwait Petroleum Company. Corporate governance is conceptualized here as conflict between two principals, the Kuwait Parliament and the Executive. This conflict is posited to have shifted into the board, becoming a conflict among board members, due to their loyalty to either principal. Viewed from an agency perspective, this conflict causes conflict of interests and information asymmetry, which affect strategic decisions.

Using a qualitative research design, 30 in-depth interviews were conducted with existing and former board members of the KPC. These semi-structured interviews yielded the respondent board members' perceptions of the impact of issues of governance, and their proposed alignment solutions.

The findings explain how tenure/experience, altruism/patriotism, board independence, recruitment, turnover and political influence effected strategic decisions in the KPC. Findings also suggest how role duality, cultural influence, incentive schemes and monitoring/voting impact the strategic decisions of the KPC. In addition, the proposals for alignment of interests made by respondents, have implications, which are the basis of recommendations made for policy in the KPC.

Study limitations are possibility of biased responses, and imperfect recall, by respondents; as well as the generalizability of findings. Suggested future research include conducting longitudinal research for more in-depth data comparisons to other regional contexts and investigating the impact of women in boards.

This research contributes to the literature of boards as a mechanism of corporate governance, and to the literature on NOC governance. It also extends multiple agency theory, by conceptualizing board members as agents of two external political interests.

Chapter 1 introduces the thesis, 2 reviews the literature, and 3 presents the research design. Chapter 4 presents the findings, while 5 discusses this with theory. Chapter 6 concludes with limitations and suggests future research.

## **DECLARATION**

*I confirm that this is my own work and the use of all material from other sources has been properly and fully acknowledged.*

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## **LIST OF ABBREVIATIONS**

<b>IOC</b>	International Oil Company
<b>K-Code</b>	Kuwait Corporate Governance Code
<b>KGOC</b>	Kuwait Gulf Oil Company
<b>KNPC</b>	Kuwait National Petroleum Company
<b>KOC</b>	Kuwait Oil Company
<b>KOTC</b>	Kuwait Oil Tanker Company
<b>KPC</b>	Kuwait Petroleum Corporation
<b>KPI</b>	Kuwait Petroleum International
<b>KUFPEC</b>	Kuwait Foreign Petroleum Exploration Company
<b>NOC</b>	National Oil Company
<b>PIC</b>	Petrochemicals Industries Company
<b>ROI</b>	Return on Interest

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*To My Daughter Mariam, the light of my life...*



## **Introduction: Issues of Corporate Governance in Kuwait's NOC**

### *Preamble*

This thesis focuses on key issues pertinent to the problems of governance of Kuwait's National Oil Company, the Kuwait Petroleum Corporation (KPC). Specifically, it aims to explain how issues of board leadership, board composition and board characteristics in the KPC and its eight subsidiaries, affect strategic decisions.

Corporate governance in general, and the related issues of board composition, board characteristics and board leadership, have become of increasing interest to scholars and practitioners alike. This is partly so due to the spate of corporate collapses that occurred in the Western World in the last decade (Blair, 2012; Mallin, 2016). Board negligence was cited as a factor contributing to the collapse of Enron, Worldcom, Computer Associates and Arthur Andersen (Clarke, 2009). This has stimulated research in board independence, the activities of audit companies, compensation, recruitment and board evaluations (Krause, Semadeni & Cannella, 2013). This focus on boards spread internationally, stimulating research on governance in NOCs, particularly in the Gulf context (Al-Sabah, 2009; Ghabra, 2014; Stevens, 2012). The Kuwait Petroleum Company (KPC), which is the context for this study, provides 7% of the world's energy supply and is the bedrock of the Kuwaiti economy (IBP, 2011). The problems of governance which affect its strategy are therefore worthy of investigation, especially to the researcher, as a citizen of the country, to whom its governance means so much.

This study uses an agency perspective to explain how members of the boards of the KPC and its subsidiaries, view their board leadership structure, board characteristics and their board composition, to impact on the strategic decisions they make. Ten themes that reflect elements of board composition, characteristics and leadership in the Kuwait National Oil Company (NOC) context are derived. Following this, the implications of those themes for



strategic decision are explored. Based on the implications of the perceived impact of these themes on strategic decisions, viewed through an agency perspective, contributions are made to research in corporate governance in the Gulf context, and to the Kuwait NOC context specifically. Additionally, suggestions regarding policy in the Kuwait NOC context are made for the benefit of practitioners and lawmakers alike.

This chapter explains and justifies the purpose of the study. It also introduces the literature of corporate governance, focusing specifically on issues of board composition, board characteristics and board leadership structure. In addition, the contextual literature on the state of governance in the KPC and its subsidiary companies, is introduced. The agency theory perspective, through which board composition, board characteristics and board leadership structure are viewed, is also introduced. Following this, the research question is stated, the intended contributions of the study are explained, and the findings of the study are briefly overviewed. The main assumptions of the study and an overview of the methodology used for the study are also stated. The chapter ends with a preview of the organization of the thesis.

## **1.1 Corporate Governance Mechanisms, Board Composition, Characteristics and Leadership Structure**

Corporate governance is defined as “a network among various corporate players such as shareholders, managers, employees, lenders, government, suppliers and consumers for increasing firm value” (Biswas, Bhuywan & Ullah, 2008, p. 9). Different mechanisms of corporate governance exist which drive a firm towards its organizational objectives. They are usually a hybrid of internal and external control mechanisms (Essen, Engelen & Carney, 2013). These mechanisms are centred in the board of directors. The board is responsible internally, for guidance and leadership of an organization, and externally, to investors and shareholders.

It is the link between the shareholders-owners and the managers entrusted with managing an organization's day to day operations (Clarke, 2009). The board is tasked with monitoring the company and management performance, making major decisions and offering advice to managers (ibid). The three broad elements of composition, characteristics and leadership structure and their impact on strategic decisions, serve as a boundary for the study in terms of its scope and as an indicator of the issues of corporate governance that constitute the findings of the study.

The responsibility for strategic decisions involves the board approving and monitoring the strategic direction of the organization (Daily et al., 2003). Board composition and characteristics, comprise the totality of the mix of knowledge, experience, independence, skills and other attributes of board members (Clarke & Branson, 2012). Although some researchers on corporate governance conflate board composition and characteristics, the two concepts are, in fact, distinct (Clarke, 2009). While board composition has been conceptualized in terms of the level of independence of board membership, board characteristics encompass attributes of the board (Mallin, 2009) and these attributes include size, demographics, ethnicity, age, gender and experience (Bhagat & Black, 1999). It may be expected that these issues of composition, characteristics and leadership structure would affect the strategic decisions made by board members (Bhagat & Black, 1999; Carter & Losch, 2004). Board members have a variety of backgrounds and perspectives that may be of benefit to the strategic decisions they make (Menulty & Pettigrew, 2011; Sorensen, 2000). How they are recruited, the level of altruism they display, how long their tenures are, and particularly in the case of NOIs like the KPC, their political affiliation, also have implications for the effect of board composition and characteristics on strategic decisions (Cowen & Marcell, 2011; Hults, 2012; Stevens, 2012; Yermack, 2004). However, research on how composition and characteristics affect strategic decisions is limited and mostly inferential (Pugliese et al., 2014). Other variables such as return

on investment and propensity to engage in mergers and acquisitions, are used in place of a direct linkage (Lublin, 1997; Balta et al., 2010). This is mainly because information on the inner workings of boards is hard to obtain (Krause et al., 2013). This thesis, based on privileged access to the inner workings of a board, attempts to address this gap.

Board leadership structure, particularly role duality, may also affect strategic decisions. The literature is divided between those who advocate splitting the positions of chief executive officer and board chairman, and those who advocate a maintenance of duality (Baliga, 1996; Guo & Li, 2011; Mintzberg & Walters, 1990). The relationship between duality and corporate governance is complex, with research theorizing that too much vested power in the CEO may reduce the strategic involvement of outside directors (Ruigrok et al., 2006). It is expected that a combination of roles or the lack of such combination may affect strategic decisions. As in the case of board composition and characteristics, the impact of role duality and other elements of leadership structure on strategic decisions, has been inferred from other variables such as stockholder returns, equity ratios and extreme measures, such as bankruptcy (Daily & Dalton, 1994; Krause & Semadeni, 2013). This resort to other variables as an explanatory link is also the result of unavailability of data about the inner workings of boards.

Indeed, the research on the effect of corporate governance mechanisms on performance has been described as ‘tentative’ and in need of further study (Clarke, 2009). What is meant by company performance is an issue, with much of the existing research taking an inferential position. Previous studies have linked composition and characteristics to performance, with no direct evidence of the elements of composition or of the characteristics that may provide the link. Researchers considered the board to be a ‘blackbox’, treating it as a variable and correlating elements of governance to financial outcomes (van Ees & van der Laan, 2012; Zattoni & Pugliese, 2012). Also, what constitutes ‘good’ or ‘bad’ governance is debatable (Clarke, 2009).

This research is based on high level access to the board members of the KPC and its subsidiaries. It may therefore provide insights into the effect of board composition, board characteristics and board leadership structure, which may not be available through the secondary measures that corporate governance research has used so far. Uniquely, the study aims to do this by self-rating. This is done by asking members of these boards to assess their activity through eliciting their perceptions of how elements of board composition, characteristics and leadership structure impact their strategic decisions (Bandura, 2001; Stiles, 2001). In other words, the judgment of what is ‘good’ or ‘bad’ about board composition, characteristics and leadership structure, is referred to the board members themselves. What people believe about the impact of their actions, as individuals, or as a collective (perceived personal and collective efficacy), can be taken as an indicator of the actual impact of those actions (Bandura, 2000).

## **1.2 Agency Theory Perspective**

The principal-agent theory is concerned with problems in corporations that arise from the delegation of the task of management by principals to agents (Jensen & Meckling, 1976; Dharwadkar et al., 2000). Principals engage agents contractually to work towards their financial benefit. Conflicts of interest, however, can arise because agents are better informed than principals and therefore may work towards their own benefit, rather than that of the firm (Su et al., 2008). So far, scholars have used agency theory to investigate the principal-agent problem through governance mechanisms, such as the composition and leadership of boards of directors (Eisenhardt, 1989). However, recent research has also made a case for new frameworks for applying agency theory (Pouryousefi & Frooman, 2017; Ali, 2014; Ward & Filatotchev, 2010). The rationale for these new understandings of the agency problem is that

principals cannot be treated as a single entity, having common interests (Su et al., 2008). For example, there are principals/owners who can directly influence boards, such as state representatives who have political authority. They can do this to advance their own interests, at the expense of other principals/owners, who do not have the same influence (ibid). High influence on boards by states may limit independence and role duality, by resulting in the appointment of more directors from political networks and a duplication of reporting roles (Dharwadkar et al., 2008; Su et al., 2008).

In addition, the emerging perspective of multiple agency in the corporate governance literature, recognises that a clear-cut dichotomy between a single principal and agent is not tenable in real-world situations (Pouryousefi & Frooman, 2017). Rather, there are instances where multiple principals exist and multiple agents exist. Rather than addressing one-to-one relationships, as traditional research in agency problems does, multiple agency theory examines many-to-many relationships to explain organizational outcomes (Hoskisson, Arthurs, White & Wyatt, 2013).

These new perspectives are taken to illustrate governance in the context of this research. Two political institutions, the Kuwait Parliament, and the Oil Ministry, representing the legislative and executive branches of the Kuwait Government struggle for control of the KPC. The conflict between the two was found to have shifted to the board and to have become a conflict between directors who owe their appointments to these different political institutions. This problem of politicization of composition and the characteristics of boards and leadership-duality of roles in the context of the Kuwait Petroleum Corporation, can therefore be viewed as a problem of agency. The board members are conceptualized in this study therefore, as multiple agents competing to secure the interests of their principals (the political institutions to whom they owe their appointments). This conflict, viewed from the perspective of the board members-as-agents, is the focus of this study.

### 1.3 The Study Setting

Stevens (2012, p. 334) describes the situation of corporate governance in the Kuwait oil industry as follows: “the history of oil in Kuwait is riven with political disputes and interference”. The country’s NOC, the Kuwait Petroleum Company, was created through the nationalization of existing IOCs, as the Kuwait Oil Company, in 1934. The KPC suffers from excessive political interference and has therefore been unable to develop a coherent unifying strategy that would optimize performance (Ghabra, 2014; Stevens, 2012). The problems of governance in the sector can be traced from the political reforms that began after the Iraqi invasion in 1991. These reforms split power between the Government (Amirati) and the National Assembly (Parliament). This has meant that the National Assembly, which derives authority through the popular vote, and the Government, which is appointed by the Amir, are not accountable to each other. They therefore have conflicting purposes (Al-Sabah, 2009; Stevens, 2012). Gridlock, or paralysis results because policies must go through lengthy procedures for approval and negotiations. The National Assembly fights off reforms that can reduce the patronage of its members, such as the provision of jobs for their constituencies. For the Government, the high turnover among its appointees for the position of Oil Minister has an effect. The turnover (ten oil ministers to date) which arises from frustration with the external interference from parliament, means that there is not enough stability in the dual position of Oil Minister-Chairman of the KPC, to significantly shape strategy (Al-Sabah, 2017; Stevens, 2012).

The KPC board is therefore subject to oversight from both the National Assembly and the Government. However, in addition to this, it is also accountable to the Supreme Petroleum Council (SPC) which is its main shareholder and is part of the government yet separate from it (Stevens, 2012). The main problem with Kuwait’s NOC is said to be one of a lack of an overall binding strategy. This is caused by the intrusive nature of the excessive political interference

that it undergoes (Al-Sabah, 2012; Stevens, 2012). This thesis is aimed at explaining how the political interference highlighted affects strategic decisions taken by its board.

#### **1.4 Research Problem**

As set out in Section 1.3, the key issue in terms of board leadership, characteristics and composition in the KPC is excessive political interference. However, it is not clear to what extent this politicization of governance in the KPC has affected its strategy, and therefore its performance (Stevens, 2012; Victor, Hults & Thurber 2012). This study conceptualizes the problem as being one of agency (Jensen & Meckling, 1976; Stevens, 2012) within the board of the KPC and its subsidiaries (Dharwadkar et al., 2000; Hoskisson et al., 2013; Young et al., 2002). The study aims also to suggest to relevant stakeholders, appropriate policy that may be formulated to reduce the impact of politicization on the performance of the KPC. Additionally, the study intends to make suggestions for further areas of research for governance of NOCs in Kuwait, the Gulf, and more generally. This is in addition to showing the implications of the research for theory in corporate governance, principal-agency, and principal-principal agency.

#### **1.5 Research Questions**

As shown in the conceptual framework at the end of the next chapter (the literature review), board composition and characteristics focus on the independence and attributes of the boards. However, the primary emphasis of the board leadership structure is role duality, which is especially significant to the KPC because of the dual role of the Chairman as Oil Minister, as mentioned in Section 1.3. In this research, the concept of duality is considered from two perspectives. That of the Chairman of the KPC also being the Oil Minister of Kuwait, and that

of the CEO of the KPC also being the Deputy Chairman of the board. Following from the conceptualization overviewed, the research questions driving this study are therefore:

**RQ1:** How are board composition and characteristics perceived to impact strategic decisions on the board of the Kuwait Petroleum Corporation and its subsidiaries?

**RQ2:** How is leadership structure-role duality perceived to impact strategic decisions on the board of the Kuwait Petroleum Corporation and its subsidiaries?

This thesis found that six elements were perceived to impact strategy from a board composition perspective: board tenure, altruism/patriotism, recruitment, turnover, political affiliation and board independence. Findings also show that four elements were perceived to impact strategic decisions from a leadership perspective: incentive schemes, role duality, monitoring and voting and cultural influences. Viewed through an agency lens, the implications of each of these elements for aligning the agency problem of conflicts of interest and asymmetry of information are discussed. The study concludes with contributions to the discipline of corporate governance and agency theory, recommendations for policy, limitations and future research directions. The researcher's reflections about the doctoral journey are also shared.

To the best knowledge of the researcher, this perspective of understanding the effect of governance on strategic decisions, in a NOC, as seen through the eyes of board members, is unique to this study.



## **1.6 Assumptions**

Certain assumptions are the basis of the conceptual framework used in this research.

Firstly, the study assumes that strategic decisions, overall, of an organization is a function of good corporate governance (Clarke, 2009). This is postulated to occur through the provision of incentives for the board and management to work towards objectives that are in the interests of the organization and its shareholders (OECD, 2004).

Also, by assuming an agency perspective, this study assumes a separation of finance and management. It assumes a distinction between those who own the KPC, i.e. the Kuwaiti public through the Government, and the boards of the KPC and its subsidiaries. It assumes a contract between both and assumes self interest in their actions (Daily et al., 2003; Hendy, 2005).

Thirdly, it assumes the significance of board members' perceptions of their own efficacy, as a whole. It is a measure of opinion, that is self-opinion, of collective efficacy (Bandura, 2001). This has implications for the design of the study and the collection of data. This assumption allowed the construction of semi-structured interview questions aimed at individual board members about the actions of the board as a whole (Stiles, 2001).

## **1.7 Overview of the Research Methodology**

This study is explanatory in nature. The research follows a constructive ontology, following the recognition that reality is constructed by both participants, and the researcher. Also, an interpretivist epistemology follows on the constructivist ontological position. This acknowledges that it is the world view of others, in this case the participants, that is the subject

of the researcher's interpretation. The methodology is therefore qualitative, with inductive interpretations of the point of view of the participants.

A single case study strategy was adopted to allow a focus on a context which reflects the object of the study. Access was gained by leveraging on highly placed contacts in the Kuwait petroleum industry, and sampling was limited to serving and ex-members of the boards of the Kuwait Petroleum Corporation and its eight subsidiaries.

Accordingly, in-depth semi-structured interview methods were the main means of collecting primary data. This was supplemented by the collection of documents that helped the researcher understand the KPC context. Thirty serving and ex-members of the board of the KPC and its eight subsidiaries were interviewed in a data collection process that started in April 2016 and ended in September 2016. An initial guide was developed, which was modified in the light of new realities that arose, in keeping with the interpretive nature of the research. Data was managed and secured according to established standards. The required ethical protocols were also observed.

Thematic analytic methods were used to make sense of the data. Three steps were employed in data analysis: first, data reduction/condensation; secondly, data display; and lastly, drawing and verifying conclusions. Reliability checks were also utilized and demonstrated.

## **1.8 Arrangement of the Thesis**

This thesis is structured as follows:

This chapter introduces the study. It highlights the importance and timeliness of the thesis by reviewing the problem of governance-board leadership, and board composition in the Kuwait Petroleum Corporation. It justifies the context of the study and explains the researcher's

interest and motivation for the study. It also sets out the research problem, aims of the study and the rationale for the research questions. It gives an overview of the literature which is the focus of the study, the theoretical perspective, methodology, a summary of the findings and implications of the thesis. It also sets out the arrangement of the thesis, in terms of the ordering of the chapters, and a summary of chapter content.

Chapter 2, sets out a current review of the literature. The corporate governance mechanisms of board composition and board leadership structure are introduced and their implications for strategic decisions are then discussed in detail. Alternative theories underlying corporate governance are critically discussed to justify the choice of agency theory, thereafter the literature on agency theory itself is critically assessed. Agency theory is then related to the literature on the board of directors as a mechanism of corporate governance. Following this, an integration of the literature is undertaken. This conceptual framework shows the linkages between the main literatures enumerated in the current study and the theoretical lens. It also forms the basis for the research design that is explained in the next chapter. The gaps that this study attempts to address, in both the literature of governance and agency theory, are also detailed at the end of the literature review chapter.

Chapter 3, the research methodology is presented. It sets out the philosophical assumptions that are the basis of the study. It also sets out the research framework designed to meet the aims of the research. The qualitative research approach is justified, as well as the case study strategy. The data collection strategies used are also explained in detail and justified. Also, the steps taken to gain access, interview, carry out transcription, management data and ensure ethicality and confidentiality, are also set out. The chapter concludes with an explanation of the three steps taken to analyse the data, and how issues of trustworthiness, confirmability, dependability and credibility were handled. Additionally, the conceptual basis of adopting perceived efficacy as an indicator of the quality of strategic decisions is justified.

Chapter 4, the findings chapter, sets out the findings of the study. The main overarching themes, informed by the corporate governance literature and supported by participant response, are presented. These are board composition, board characteristics and board leadership structure. Subthemes of each overarching theme are presented. In each instance, respondents' perceptions of the impact of these governance mechanisms on strategic decision making in the KPC and its subsidiaries are presented. The agency problems of conflict of interest and asymmetry of information and their possible resolution through alignment are noted and summarised for subsequent theoretical discussion. This discussion takes place in Chapter 5.

Chapter 5, the theoretical discussion chapter explores the theoretical implications of the thesis, which were obtained through applying an agency theory lens to the findings of the study. Each element of board composition, characteristics and board leadership is assessed in terms of participants' perspectives on its impact on strategic decision making. This is done through a theoretical consideration of conflicts of interest and asymmetry of information that participants perceive to arise from the operation of the mechanism in question. Also, how alignment of interests and information can be attained in each specific case is explored.

Chapter 6, concludes the explanation of how the politicization of governance mechanisms in the KPC and its subsidiaries, affect the efficacy of strategic decisions, and therefore the performance, of the KPC and its subsidiaries. The possible contributions of the thesis to the research on Governance in Kuwait's NOC is discussed. Also, the possible contributions of the thesis to the literature of agency is set out. The limitations of the study are discussed and directions for future research are highlighted. Additionally, specific recommendations are made for the reformation of governance in the Kuwait Petroleum Corporation. The final chapter concludes with some reflections on the experience of the research process by the researcher.

## **Chapter 2 Literature Review: Governance and Agency in the KPC**

### **2.1 Introduction**

This chapter reviews the literature on corporate governance and agency theory. It also provides a review of the state of governance in the context of this research, which is the Kuwait Petroleum Company. As earlier previewed in Chapter 1, this study focuses on how issues of governance, on the board of the KPC, affects its strategy. This is examined through an agency perspective lens. Therefore, in this chapter, a review of the state of the literature on corporate governance is carried out, with emphasis on governance in national oil companies. This is used in conceptualizing a definition of governance specific to this study. The corporate governance code of Kuwait, the K Code, is also contrasted with governance systems in other geopolitical regions. Following this, research on board composition, characteristics and board leadership structure is reviewed, showing where it applies to the aim of this study. Specifically, the workings of the board of directors, the issue of externality, demographics, tenure and duality were focused on, in line with the aim of the research. The state of literature in these areas is reviewed broadly, in line with the explanatory aim of the study. Also, the current state of governance in the KPC is reviewed, to provide an up to date assessment. Based on the foregoing state of knowledge in corporate governance, agency theory and the National Oil Company of Kuwait, a conceptual framework is presented to guide the execution of the study.

For comprehensiveness, seminal literature in corporate governance and regional studies in governance, were assessed. Seminal work in agency theory, from its beginnings, to date, were reviewed. Sources ranged from high quality peer reviewed articles to working papers. The literature on the Kuwait context was sourced from local articles, and also the works of leading energy researchers in the western context.

The chapter concludes with a review of the gaps in the literatures reviewed, that this study may fill. It sets the foundation for the research design that is presented in Chapter 3.

## 2.2 Corporate Governance

Corporate governance has been variously defined. Cadbury (1992, p.15) define it simply as “the system by which companies are directed and controlled”. Biswas, Bhuywan & Ullah (2008, p. 9) define it as “a network among various corporate players such as shareholders, managers, employees, lenders, government, suppliers and consumers for increasing firm value”. A more elaborate definition is that by the OECD (2004:11):

“Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure though which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. ....it helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. As a result, the cost of capital is lower, and firms are encouraged to use resources more efficiently, thereby underpinning growth”.

On the other hand, Monks and Minow (1991) explain that the general understanding of corporate governance is defined by how a board in a firm is structured, and how well shareholders’ rights are protected. Kirstie (1999) defines corporate governance from a slightly different dimension, by claiming that corporate governance is solely about board members sitting together and making decisions for the company and all its stakeholders (Blair, 1996). A combined perspective of the previously mentioned definitions, views corporate governance as both the basis which provides direction to a company, as well as the external and internal relationships of a company (McRitchie, 2001). Taking various other definitions into account, as shown in Table 2.1, corporate governance can be said to encompass how an organization is managed, its ownership structure, its board structure, culture, strategies, policies and its

relationships with its stakeholders (Aguilera & Jackson, 2010; Blair, 2009; Marcel, 2006; Tusiime et al., 2011).

For this research, a conceptualization of corporate governance is provided which takes the National Oil Company governance systems into account and situates them in the principal-agent model (Hults, 2012). This is because this study aims, as mentioned in the introductory chapter, to use an agency-conflict lens to explain how the tension that arises between two external principals manifests itself among directors. These directors that owe their positions to these competing external interests, the Oil Ministry and the National Parliament, are conceptualized in this study as agents conflicting with one another. The problem of conflict between the two principals is conceptualized as having shifted to the board and become an inter-director conflict.

NOC governance systems function as a contract between the State and the NOC (Marcel, 2006). The State acts as principal, while its appointees on the board of the NOC act as its agents (Hoskison et al., 2013; Ward & Filatotchev, 2010). However, in the context of the KPC, the State is represented by two separate political entities, as mentioned in the previous paragraph. These principals are opposed to each other in their determination to control the NOC (Al-Salam, 2009; Stevens, 2012). The tension between them, a principal-principal conflict, on shifting into the board, results in agent-agent conflict. Drawing on all these perspectives,

**Corporate governance in this study is conceptualized as governance by two principals with the board of directors of the NOC serving as agents being directed by the principals to fulfil a national economic mission (Aguilera & Jackson, 2010; Cadbury, 2002; Hart & Moore, 1995; Hults, 2012; Ward & Filatotchev, 2010).**

Issues of composition, characteristics and board leadership structure, arise from this tension between board members acting as agents for these external interests. This study is aimed at explaining these conflicts and how they can be resolved or aligned, from an agency

perspective. The nature of principal-principal and agency-agency conflicts are discussed further in Section 2.8.1.

Table 2.1 gives useful definitions of corporate governance which are drawn on for this conceptualization.



**Table 2.1: Definitions of Corporate Governance**

	<b>Author</b>	<b>Article Title</b>	<b>Definition</b>
<b>1</b>	Blair, M (2009)	Comment on” The New Economy Business Model and the Crisis of U.S. Capitalism”	“The whole set of legal cultural and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated.”
<b>2</b>	Aguilera & Jackson (2010)	Comparative and International Corporate Governance	“Corporate governance may be defined broadly as the study of power and influence over decision making within corporation...Existing definitions of corporate governance are closely tied to different paradigms or ways of conceptualizing the organization of firm.”
<b>3</b>	Davis (2005)	New Directions in Corporate Governance	“The structures processes and institutions within and around organizations that allocate power and resource control among participants.”
<b>4</b>	Cadbury (2000)	Foreword, Corporate Governance a Framework for Implementation	“Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aims is to align as nearly as possible interests of individual, corporations, and society.”
<b>5</b>	Marcel (2006)	Oil Titans: National Oil Companies in the Middle East	“A type of contract between state and NOC in which the state has authority over the NOC. The state acting as principal, relies on its governance system to direct the NOC, serving as agent, to fulfil state objectives or “national missions” (generating profits, securing employment, etc.)”
<b>6</b>	Hults (2012)	Hybrid Governance: State management of national oil companies	“Governance mechanisms reflect interest group struggles, and broad structural factors. Interest

			groups which line up behind particular institutions or factions within those institutions affects how states settle on particular governance mechanisms. Once these interest groups reach an equilibrium, either through formal agreements or de facto working arrangements, the broad contours of that equilibrium may persist for long periods of time.”
7	Cadbury (2002)	Corporate Governance and Chairmanship	“It means either the action of governing or the method and it is in the latter sense it is used with reference to companies.”
8	Cadbury (1992)	Report of the Committee on the Financial Aspects of Corporate Governance	“Corporate governance is the system by which companies are directed and controlled.”
9	OECD (2004)	Principal of Corporate Governance	“Corporate governance involves a set of relationships between a company’s management, its board, its shareholders, and other stake holders. Corporate governance also provides the structure through which the objectives of the company are set and the means of obtaining those objectives and monitoring performance are determined.”

### *Separation of Ownership and Control*

Today's traditional view of corporate governance originated in 1932 with the publication of Berle and Means's paper. Their seminal paper focused on the separation of ownership and control within modern firms, along with the problems that arose due to this power separation. Berle and Means's (1932) paper sparked the modern debate on corporate governance, and was the first paper "that acknowledged the problem of separation of control between owners and managers of firms" (Bratton, 2006, p. 1381). On the other hand, critics of *The Modern Corporation* argued that this paper was what "got the corporate governance literature off on the wrong foot" (Learmount, 2002). However, supporters of Berle and Means's paper believe that they were the "forefathers of contemporary thinking in corporate governance" (Learmount, 2002, p.1), and believe that no matter what came before, "corporate governance really began with Berle and Means" (Wells, 2009, p. 1248). Scholarly literature to date shows that critics such as Wells (2009), strongly insist that Berle and Means's (1932) publication lacks originality, and is seen as innovative instead of inventive. Wells (2009, p. 8) goes on to explain that the article is an "end product" of all the theories and models that journalists, lawyers and economists had developed before 1932 and thus, "not a radical breakthrough". At the start of the 20<sup>th</sup> century, before the publication of *The Modern Corporation and Private Property*, separation between control and ownership in firms was a concept over which debates evolved between economists and legal scholars on its definition, who it would affect, and its potential impact on an economy (Hovenkamp, 2009). By the 1920s the separation between ownership and control became a popular subject in newspapers, books, and journal articles. Many writers implied that the separation between ownership and control, is creating "grave problems" (Wells, 2009, p. 1248) for corporation managers, with managers assumed to act in their own self-interest rather than protecting shareholders' interests (Wells, 2009, p. 8). Nevertheless, during the later 1900s, modern corporations were growing in their

size, their need for external capital, and their complexity (Biswas et al., 2008). Additionally, the increasing number of stock markets and the scrutiny on managers' wealth, along with the necessity of efficient risk allocation (Fama & Jensen, 1983; Fama, 1980) resulted in an increase of "diffused ownership" of firms among shareholders (Biswas et al., 2008, p. 16). Even though these shareholders agree to the risk-bearing aspect of owning a company, they lack the time and interest to engage in management of the company's daily operations (Gillan & Starks, 2000). On this basis, a contractual relationship is established where managers, as agents, are responsible for managing the company's daily operations, and controlling the associated risk, whereas principals are risk bearers, shareholders and residual claimants (Fama & Jensen, 1983). Therefore, Jensen and Meckling (1976) in their seminal paper *The Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure*, define modern corporations as a nexus of contracts, which takes place between the notion of separation of ownership and control and the principal-agent relationship.

### **2.3 Diversity of Corporate Governance**

Different approaches to corporate governance structures have evolved to reflect varied social, cultural and economic contexts (Clarke, 2009). This evolution is influenced by contextual variables such as national, regional and cultural differences, ownership structure, industry and market environment, firm size and structure, lifecycle variations and CEO tenure, attributes and background (Huse, 2005). The rich diversity of international corporate governance systems, is marked by the clear dichotomy between 'outsider' systems such as those of Anglo-American systems, characterized by dispersed equity markets, separation of ownership and disclosure based regulation, and 'insider' systems that are found in much of the European, Middle Eastern, and Asia Pacific contexts. These are characterized by concentrated ownership, majority interests represented on the board of directors and financing from banks

(Clarke, 2009; Mallin, 2016).

**Table 2.2: Regional Models of Corporate Governance**

<b>Characteristics of Board of Directors</b>	<b>Anglo Saxon</b>	<b>German</b>	<b>Japanese</b>	<b>Russian</b>	<b>Kuwait</b>
<b>Composition of the Board</b>					
<b>Structure of Shareholders Capital</b>	Shares dispersion of the market	Concentration of Capital	Concentration of Capital	Concentration of Capital	Concentration of Capital
<b>Minimum Number of people on the Board</b>	1-3	3	1-3	5	3-6
<b>Independent Directors</b>	Exist	Exist	Exist	Exist	Exist
<b>Bank Representatives</b>	None	Exist	Exist	Exist	None
<b>Employees</b>	None	Exist	None	None	None
<b>Functions of the Board</b>					
<b>Planning</b>	Yes	Yes	Yes	Yes	Yes
<b>Control</b>	Yes	Yes	Yes	Yes	Yes
<b>Making Decisions</b>	Yes	Yes	Yes	Yes	Yes
<b>CEO Appointments</b>	Yes	Yes	Yes		Yes
<b>Evaluation of Activities of Executive Body</b>	Yes	Yes	Yes	No	Yes
<b>Investment decisions</b>	Short term	Long term	Long term	Short term	Long term

Source: Adapted from Dementyeva, A. 2009.

Table 2.2 shows some of these differences in approaches to governance, in terms of board composition and board functions, in the different cultural and political contexts earlier mentioned. In terms of dispersal of equity, the Anglo-American model is characterized by the dispersal, or diffusion of equity in the market (Clarke & Branson, 2012; Dementyeva, 2009). In contrast, the German, Japanese and Russian models are noted for concentration of equity in relatively few holdings, compared to the Anglo-American model (Clarke, 2012). The Kuwait-Gulf model is also characterized by the concentration of equity in relatively small holdings, compared to the Anglo-American model. Also, the Kuwait-Gulf model requires that a board of directors consists of at least six members, with at least three being present for any meeting (Kuwait Corporate Governance Code). This is more than the amount required by the other models in comparison, and shows the emphasis placed on the organization of the work of the board, and the need for adequate manpower to cover assigned roles and responsibilities (Ghabra, 2014; K Code). The requirement for independent directors is common to all the regional models, however, the need for representatives of financial institutions on the board is not a common characteristic (Dementyeva, 2009; Mallins, 2016). The Kuwait-Gulf context is similar to the Anglo-American in that representatives of financial institutions are not required to sit on boards. This contrasts with the German, Japanese and Russian contexts, where representatives of Banks may sit on boards (Dementyeva, 2009). The Kuwait-Gulf context is similar to the Anglo-American, the Japanese and the Russian, in the fact that employees are not allocated board membership, in contrast to the German model (Mallins, 2016; Ghabra, 2014; Clarke & Branson, 2012).

In terms of board function, the differences between regional models of corporate governance are less noticeable, as shown in Table 2.2. In all the models of governance, planning, control and decision making, are required board functions (Clarke, 2010; Dementyeva, 2009). The need for board discretion in the appointment of CEOs is also common

to all the regional models, with exception of the Russian, where board members discuss and agree according to company policy (Dementyeva, 2009). This is also the case for the requirement to evaluate the activities of the executives, which, while common to other governance systems, is not a required function of the board, in the Russian context (ibid). In terms of investment decisions, the Anglo-American model is characterized by a short term focus, which is shared with the Russian. However, boards in the German, Japanese and Kuwait-Gulf model are characterized by a longer-term focus, in terms of investment (Dementyeva, 2009; Ghabra, 2014). The Kuwait Corporate Governance Code is discussed in detail in Section 2.4.

Globalization of corporate governance is mainly driven by multinational corporations (Clarke, 2009). They serve as the catalysts for private sector participation in the global market, raising capital, creating jobs and adding value by profit generation. The importance of multinational corporations as drivers of globalization has led to a focus on how they are governed, how their ownership and structure is set up, the aims they pursue, the rights they respect and how they distribute the value they create (Clarke & dela Rama, 2006).

Before reviewing the literature on boards of directors, some context is provided by reviewing the codes of corporate governance in Kuwait, especially in relation to boards of directors.

## **2.4 The Kuwait Corporate Governance Code**

Henceforth referred to as the K Code, this code was established in April 2010 with the aim of ensuring proper governance in publicly held companies by compelling them to: ensure balanced board composition, establish appropriate roles and responsibilities, ensure recruitment of highly qualified members, ensure the integrity of financial reporting, risk



management, internal audit, ensure ethical standards, ensure timely high quality disclosure, respect of the rights of shareholders, meet Corporate Social Responsibility and meet regulatory requirements (K Code, 2010). The rules that relate to this research are reviewed in greater detail.

Rules i-iii, which refer to standards for Board Composition, enjoin companies to ensure that boards must be properly composed in accordance with the company's activity and nature as well as volume of business, in addition to assigned roles and responsibilities. Firms are enjoined to ensure variety of educational, professional experience and specialized. Board members must be aware of relevant laws and policies and board rights and roles. This is in addition to full understanding and awareness of the company's activities and all risks against its financial position. In addition, members of a Board of Directors shall comprise of independent members, in order that they can exercise their unfettered and independent judgment under no pressures or obstacles. These independent members shall be assigned advisory tasks in regard to various activities of the company. The company is enjoined to also ensure that it schedules its work, allocating sufficient time for the execution of assigned roles and responsibilities. The Rule also specifies the Organizing of Board Meetings and Agenda. Boards must organize periodic meetings and specify issues to be discussed in regard of the company's activity, in addition to registering, coordinating and archiving board minutes of meetings. Also, regarding roles, responsibilities and duties, firms shall specify these in detail for each board member and for the executive management, as well as the authorities and powers authorized for the executive management. This is to reflect the balance of authorities and powers between both boards of directors and executive management. This is in addition to non-monopoly of any parties of absolute powers to facilitate the Board accountability by the shareholders and it is also in addition to separating powers and authorities of both the Board of Directors and Executive Management. Finally, the Board of Directors shall form Independent

Specialized Committees to help accomplish board assigned roles, enabling the board to effectually fulfil its roles; in accordance with each company's needs and work conditions.

Overall, the K Code is highly developed, detailed and adjudged sufficiently reflective of mechanisms that would ensure adequate governance in publicly held companies in Kuwait (Stevens, 2012). The particular mechanism that is the focus of this study, the Board of Directors, is reviewed in Section 2.5.

## **2.5 Boards of Directors**

The Board of Directors is the unit charged with leading and controlling a firm. It is the link between shareholders and managers and its effectiveness is necessary for good corporate governance and the overall success of the firm (Armstrong, Ittner & Larcker 2012; Mallin, 2016; van Ees & van der Laan, 2012). Two different types of board structure are typical: the unitary and the dual board structure.

Unitary board structures are more commonly found in Anglo-American economies. It is a single board, comprised of both executive, and nonexecutive directors, and bears responsibility for all facets of a firm's activities. Shareholders elect the directors to the board at the firm's annual general meeting (Daily & Dalton, 2004; Mallin, 2016; Zattoni & Pugliese, 2012). Dual boards on the other hand are comprised of a supervisory board and an executive, managerial board. The functions of supervision and management are separated, with the supervisory board focused on providing policy and direction, while the managerial board runs the business (Gavin & Cameron, 2010; Mallin, 2016; Petrovic, 2008). There is no overlap in membership, which effectively separates management and control. Typically, members of the supervisory board are appointed by shareholders, while they in turn appoint the members of

the management board (Mallin, 2016). In the context of this study, the board members are appointed by the Oil Ministry and the National Parliament.

Overall, the board is tasked with formulating direction for the firm by deciding on its aims, strategies, policies and activities that would achieve those aims. Additionally, boards monitor progress towards the achievement of those aims (Abbott et al., 2000; Epstein & Roy, 2006; Klein, 2002). To attain high performance, boards need to ensure that their firms have guidance that is highly strategic. Boards also have to ensure that the firms that they oversee are accountable to all their stakeholders, such as staff/employees, clients, suppliers, regulatory bodies and the wider community in which they are situated. In addition, it is the duty of a board that seeks superior firm performance, to ensure that the most highly qualified executive team is in charge of the firm's operations (Conyon & Peck, 1998; Cotter & Silvester, 2003; Mallin, 2016; Ruigrok et al., 2006). Significantly, decisions about board composition, characteristics and board leadership structure will be crucial in determining the extent to which a board is able to meet these objectives (Clarke, 2009; Epstein & Roy, 2006).

Boards are required to have regular, scheduled meetings, and they are required to have a formal schedule of items over which they have the right to make decisions. The reporting procedures should be clearly set out for the board and its subcommittees, whose functions will be reviewed further in Section 2.6. Additionally, boards are also required to have a balance between executive and non-executive directors, the implications of which will also be reviewed in the following sections. Board members are also expected to have independent access to the company secretary and to be open to independent professional advice, as well as to receive training on commencement of their role (The Code, 2014).

Regarding the roles of the key board functionaries, the chairman, the chief executive officer and the company secretary, the chairman of the board is responsible for managing the board. The role is tasked with ensuring not only regular meetings but also that directors have

access to the information they require to function effectively (Linck et al., 2008; Mallin, 2016). The chairmanship role is distinguished from that of the chief executive officer, in that the chairman is vested with the authority of the board while the CEO is vested with authority from the board (Cadbury, 2002).

The chief executive officer (CEO) is tasked with managing the firm's business activity. To avoid one individual having too much power and the subsequent problems that may arise due to accountability and conflict of interest, the role of the CEO is usually kept separate from that of the chairman (Cadbury, 2002). In terms of the relationship between the CEO and the board, it is posited that boards strive to control the actions of the CEO, and continually assess the person of the CEO for fit and ability (Laux, 2014).

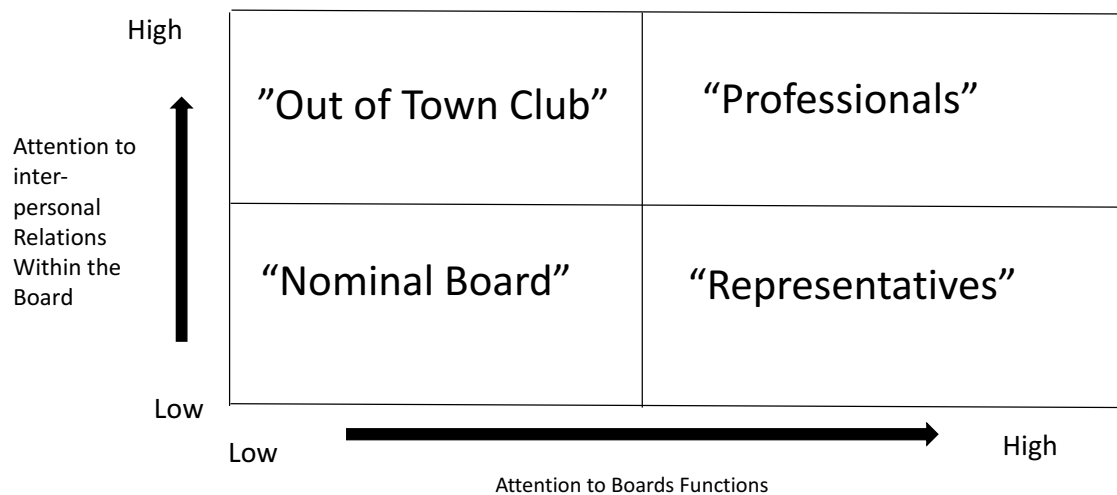
The board secretary is tasked with the duty of facilitation, which means coordinating with the committees to ensure that the members of the board have all the required information for the adequate execution of their role. The company secretary also has an advisory role to the chairman on governance matters and with activities pertaining to the training and hiring of directors (Mallin, 2016; van Ees & van der Laan, 2012).

Non-executive directors are distinct from executive directors who are senior employees of the firm and whose board appointments are in continuation of their roles as executives. The non-executive directors serve as a counterbalance to the executive directors, in ensuring that the interests of shareholders are the priority of firm activity (Epstein & Roy, 2006). Non-executive directors also are expected to bring their diverse experience and information to bear on the oversight function of the board. Ideally, some non-executive directors should also be independent, that is, they have no prior ties to the firm in whose board they serve. This is held to ensure that their expected independence of judgment is not compromised (Cadbury, 1992).

Sub-committees are appointed by the board to conduct its duties in detail. They also serve as a means of reducing conflicts of interest that may arise from the setting of executive

remuneration and patronage (Charkham, 2005; Ganin & Cameron, 2010; Shivdasani & Yermack, 1999). The most important of these committees are the audit committee, tasked with the proper reporting of financials and internal control, and the remuneration committee, tasked with determining and applying the criteria for executive compensation (Canyon & Peck, 1998; Klein, 1998; Main & Johnston, 1993; Mallin, 2016). Other significant committees are the nomination, risk and ethics committees.

**Figure 2.1: Types of Boards of Directors**



Source: Adopted from Demetyeva, 2009

*Interpersonal relationships and Board functions*

Dementyeva (2009) showcases an intriguing dynamic between attention to interpersonal relations within a board, and the attention paid to board functions. Contrasting the two attributes on a continuum of low to high, different categories emerge: Out of town club, professionals, nominal board, and representatives. This is shown in Figure 2.1 and will be briefly reviewed to show how it aids in an understanding of this current study.

Out-of-towners are boards that behave like a group of friends when out of town. They are characterized by informal systems of validation, ‘scratching my back, while I scratch yours’. These ‘buddy-buddy’ boards pay low attention to board functions such as planning, control and strategic decision making and more attention to interpersonal relationships (Dementyeva, 2009). By contrast, boards of directors categorized as professional, balance their strong interpersonal ties with strong attention to the board functions of planning, supervision, monitoring and decision making (Carpenter & Westphal, 2001; Dementyeva, 2009; Mallin, 2016). Building on personal interaction, with a focus on carrying out designated functions, a united, highly functional team is created.

Nominal boards, are characterized by being not more than a paper requirement, a ‘box ticking exercise’. They are neither focused on building strong interpersonal ties, nor are they focused on carrying out their board functions (Dementyeva, 2009). In contrast to the three other categorizations by Dementyeva (2009), nominal boards are the least effective. Representatives, on the other hand, are high in attention to their designated board functions, while being low in interpersonal relationships. This may result where members of the board are representatives of very large equity holders, and function to maintain the balance of power, by keeping interpersonal considerations to a minimum ( Dementyeva, 2009; Carpenter & Westphal, 2001).

In the context of the KPC, the relationships between directors, can be characterized as more of the ‘out of town club’ buddy-buddy type. There are strong interpersonal ties due to cultural influences (Aldossari & Bourne, 2016; Ghabra, 2014; Stevens, 2012). However, due to patriotism and the relatively large number of directors with experience from the petroleum industry, there is substantial focus on board function (Ghabra, 2014; Stevens, 2012). This study extends these categorizations by examining how these variables of culture and patriotism impact on board ties, and the board function of strategic decisions.

Overall, decisions about the structure of the board, characteristics and composition of the board, in terms of roles and responsibilities, expertise, independence, external affiliations, remuneration, tenure and cultural context, will be crucial in determining the extent to which a board is able to meet its objectives (Clarke, 2009; Epstein & Roy, 2006). This study is aimed at determining how these variables of structure and composition in the KPC board affect its strategic decisions.

The focus of this review is narrowed down here to the governance issues of board composition, characteristics and board leadership structure, in keeping with the aims of this research. Then a review of the theoretical framework of agency theory is undertaken. The known implications of agency theory for the corporate governance issues highlighted above will then be brought into the exposition.

## **2.6 Board Composition and Characteristics**

In the previous section, the use of boards and their design, as a mechanism for corporate governance and control was overviewed. The key elements of board operation: structure, composition, characteristics and processes were highlighted. In this section, board composition and characteristics are reviewed in detail. This is in line with the overall research question, which is focused on the effect of the board composition, characteristics and leadership structure on strategic decisions. Board composition refers to the mix of independence, skills and other necessary attributes possessed by board members (Bohern & Storm, 2010; Carter & Lorsch, 2004). Some of the literature on the composition of corporate boards focuses explicitly on the influence of external members in reducing agency problems (Geneen, 1984). While some studies have examined the influence of board characteristics such as influence, on performance, for instance Bhagat and Black (1999), results have been inconclusive empirically. This is unsurprising since there are several other factors that may impact performance besides

independence or externality of membership of board members (Clark, 2007). Board composition has been mainly used in the literature to refer to independence on boards, or the lack of it. However, a lot of research conflates composition and characteristics which refer to other attributes such as size, demography, tenure/experience, social ties and age (Van Ees & Van der Laan, 2012; Westphal & Zagac, 1998).

Membership by external directors is considered worthwhile because their depth of experience, expertise and knowledge may be beneficial for an organization (Bathala & Rao, 1995; Clark, 2007; Jensen, 1993). Such proponents of independence on boards posit that external directors do not suffer from groupthink (the tendency for members of a group to hold similar ideas and viewpoints over time). External directors also have to consider their professional reputation as arbiters, or ‘referees’. Regulatory bodies are also enthused by the incorporation of external membership in boards (Kesner, 1988). However, critics of external board membership point to the fact that external directors are typically lacking in information that is readily available to internal members, thus reducing their effectiveness (Mace, 1979; Carter & Lorsch, 2004). Additionally, substantial research has been undertaken to assess the impact of external membership of the board on oversight tasks, such as the monitoring and selection of senior executives.

Some studies on board compositions have reached the consensus that any individual changes within a single board of directors group, will consequently change the overall composition of that group (e.g. Sorenson, 2000). Mostly, these studies focused on the influence of managerial characteristics on the board processes and organizational outcomes. Most popularly discussed is the strategic decision-making process, (Geletkanycz & Hambrick, 1997; Papadakis et al., 1998; Hambrick, 1989). Strategic decision-making literature identify this process as a system of “steps, phases or routes” (e.g. Fredrickson, 1984; Mintzberg et al., 1976).



Board members, aside from top management, do also have a direct impact on the strategies of organizations (Ees et al., 2009; Guo & Li, 2011; Ibrahim & Angelidis, 2011; McNulty & Pettigrew, 2011; Forbes & Milliken, 1999; Pearce & Zahra, 1992; Baysinger & Hoskisson, 1990; Johnson et al., 2012). Many of these studies have suggested the impact of board composition and their involvement on a firm's strategic choices as an area for future research.

Several studies on boards have neglected to cover the grey area that lies between board composition and board performance (Carcello & Hermanson, 2011; Forbes & Milliken, 1999). Within this area occurs the board processes such as the strategic decision-making process, mentioned in the previous paragraph (Guo & Liu, 2011). Mintzberg, Raisinghani, and Theoret (1976) argue that strategic decisions are not simple to trace because they develop through fragmented and complex processes.

### *Characteristics*

Recent research on board composition has expanded from considering independence alone, to considering other social, and human capital (Johnson et al., 2013). These include experience, organizational tenure, ties to other firms, personal relations and social standing (Papadakis et al., 1998; Johnson, Schnatterly & Hill, 2013). Johnson, Hoskisson and Hit (1993) and Judge and Zeithaml (1992) agree that when directors are involved in a strategic decision from the beginning of the process, it allows them to more easily identify and deal with problems of the process, leading to better decision outcomes. Ginsberg (1994) adds to this line of thought, by claiming that directors contribute to strategic decisions through their perceptual screen made up of demographics, background, expertise, and cognitive values. Rindova (1999) supports the notion that, apart from focusing on the cognitive values brought to bear by directors on strategic

decision-making, the determinants of director participation in the organizational strategic decision process is also worth researching.

As a contrast to this argument, Pfeffer (1983) claims that the study of these processes is not necessary because behaviour of board members can be predicted by assessing their age demographics. This argument further motivated research on the impact of characteristics of board members, which has encouraged the argument of “precision over parsimony” (Forbes & Milliken, 1999, p. 490). Milliken and Volrath, (1991) explain that board members apply their cognitive values to strategic decisions through scanning, interpreting and implementing. More recently, Forbes and Milliken (1999) argue that the demographics of board members, particularly their age, are also represented in strategic decisions of an organization.

Key demographic attributes that have been subjected to research are age, educational level, gender and race (Carpenter et al., 2004). Researchers into board mechanisms typically assume that demographic characteristics, such as age and experience affect directors’ behaviour, and subsequently, firm-level outcomes, such as decision-making (Forbes & Milliken, 1999). These are reviewed in turn:

### *Age*

A significant stream of research has sought to assess the impact of age levels of board members on the likelihood to initiate organizational change. Bantel and Jackson (1989) found that older board members, over the age of fifty, were less likely to initiate strategic change, while Ahn and Walker (2007) found that younger boards were more associated with strategic change.

Other studies on demographics argue that choosing directors just because of their age/ experience, will lead to the neglect of other more important characteristics (Ferreia, 2010). Johnson, Schnatterly and Hill (2012, p. 202) suggest that the age of board members is

“equivocal” because it can represent their experience or how risk averse they are. Nevertheless, Golden and Zajac (2001) support this and claim the proportion of directors over the age of fifty is positively related to strategic decisions. However, Platt and Platt (2012) find that the older the directors are, the more valuable their contribution. These equivocal findings suggest that there may be variables other than director age which influence firm-level outcomes at the board level.

### *Education*

One such variable may be education. The educational level and status of the educational institutions attended by board members is posited to influence their decision making. For instance, the number of prestigious Ivy-League type degree holders on the board is found to positively impact innovative performance (Wincent et al., 2010).

### *Industry Experience*

As part of the human capital characteristics that directors bring to bear on strategic decision making, familiarity with industry plays a crucial role, influencing how directors process information and determining the amount of influence wielded by directors in the board room (Johnson et al., 2013). Industry experience has been positively related to sales growth (Kor & Sundaramurthy, 2009), strategic decision efficacy (Pugliese et al., 2009) and stock market reactions following acquisitions (Walters et al., 2008).

### *Gender*

Another significant variable that may affect firm-level outcomes is gender. However, evidence for the impact of gender on board dynamics, and therefore decision making, is scant (Bohren & Strom, 2010). It may be important to note, in terms of impact of strategy making,

that women directors were found to be more conscientious than male directors in attending meetings (Adams & Ferreira, 2009). Also, Nielsen and Huse (2010) found that gender diverse boards experience less conflict and are more collaborative over strategy.

### *Ethnicity*

Another variable that may affect board performance is ethnicity. Studies have posited that ethnic diversity, similar to gender, affects group dynamics and subsequently decision-making (Ingley & Van der Walt, 2003). However, results, as in the case of gender, are mixed (Carter et al., 2010). Nevertheless, it is expected that ethnicity may not be salient in this context, as the operators of the Kuwait Petroleum Company and its subsidiaries, are mono-ethnically Kuwaiti (Sandoval, 2015).

### *Chief Executive Experience and Venture Capital Experience*

It may be expected that directors who have served as CEOs are a source of executive experience that can be tapped into and sounded out (Rosenstein et al., 1993). In the same way, board members who have experience in venture capital firms have acquired expertise in financing and may have a strong desire for the financial success of the firm, on whose board they subsequently sit (Johnson et al., 2013). They are likely to be more informed about the firm's operations (Fried et al., 1998) and are more likely to exercise good corporate governance (Filatotchev et al., 2006).

### *Financial Expertise and Organizational Tenure*

Expertise with finance has been found to affect a range of issues in the firm (Johnson et al., 2013). These issues include debt servicing strategies, earnings management and the engagement and disengagement of auditors (Mizruchi & Stearns, 1994; Jensen & Zajac, 2004).

Additionally, as directors spend increasing amounts of time on boards, they tend to acquire expertise that is specific to the organization and build relationships with stakeholders in those areas of expertise (Kosnik, 1990). However, it is noteworthy that the impact of director tenure on firm outcomes such as strategic decision making has been found to be equivocal. A possible explanation for these mixed results is that tenure has a non-linear effect (Musteen et al., 2010).

### *Ties to other Firms*

In addition to the human capital external directors bring with them as a resource, that has been dwelt on above, they also bring social capital, such as ties to other firms (Johnson et al., 2013). External directors are nominally and factually linked to the firms where they have full time initial employment. It has been argued that the behaviour of external directors regarding the strategic perspectives they take, depends on the expertise availed them by their membership of other boards (Carpenter & Westphal, 2001). To illustrate, directors with links to private equity firms increase the likelihood of private equity deals at the local firm (Stuart & Yim, 2010). However, it is argued that excessive ties can be harmful to shareholders and can give the management of the originating firm undue control over the affairs of the host firm (Ruigrok et al., 2006). In addition, it has also been argued that sitting on multiple boards may cause directors to be over engaged, to the point that they are unable to adequately monitor events at the firm of interest (Jackling & Johl, 2009). Busy directors are linked to a lessening of monitoring, excessive compensation for the chief executive and to poorer firm performance (Withisuphakorn & Jiraporn, 2017). Paradoxically, board members with external directorships are more informed and more knowledgeable in terms of making decisions about hiring new chief executives, and these ties also make it less likely that a new chief executive hire would be dismissed (Lee & Rhee, 2008; Zhang, 2008).

### *Personal Relationships and Affiliations*

Another form of social capital that is brought to bear by external directors are their personal ties and affiliations (Johnson et al., 2013). As in the case of ties to other firms discussed above, social capital, in the form of personal or loyalty relationships, has been found to affect group dynamics (Forbes & Milliken, 1999). These ties may be professional, such as those ties with suppliers and lawyers; they may be an affiliation by loyalty, such as that felt between directors and the chief executives that they have championed, and they may be personal ties, such as those between friends and family members (Lee & Rhee, 2008; Zajac & Westphal, 1996). Such affiliated and appointed relationships have been found to be linked to strategic outcomes, such as the adoption of takeover anti-takeover tactics that are aimed at furthering the entrenchment of the chief executive at the expense of creating shareholder value (Sundaramurthy, 1996).

#### **2.6.1 Board Composition, Characteristics and Strategic Decision Making**

Reviews of research into Boards of Directors as mechanisms of corporate control, show that a lot has been inferred from variables such as composition and characteristics and their effect on firm-level outcomes such as strategic decision making (Pugliese et al., 2009). However, this inference has been largely based on evidence linking these variable inputs to such financial outcomes as return on investment, profitability and share price (ibid). Research in boards requires more knowledge of the processes and mechanisms that make for this linkage (Mallin, 2012). Concerned as this study is with the effect of board composition and characteristics on strategic decisions in the context of the Kuwait Oil Company and its subsidiaries, this point is of importance.

This importance is further demonstrated by the fact that boards themselves, quite apart from being subjected to greater scrutiny by stakeholder publics such as institutional investors,

have begun to subject their own activity to much greater assessment (Lublin, 1997). The amount of research that objectively links board characteristics with strategic decisions is sparse (Pugliese et al., 2009). Even less research also objectively examines the impact of board characteristics and composition on board processes and performance (Ees et al., 2009; Balta et al., 2010). Most studies on board demographics posit that these characteristics impact decision making. However, there is no consistency in findings regarding any demographic characteristic and firm performance.

## **2.7 Board Leadership Structure**

In line with one of the main aims of this research, assessing the impact of the practice of role duality on strategic decisions in the context of the KPC, board leadership practices and structure is reviewed.

In the literature of agency theory, academic opinion is divided between advocates of separation between holders of the positions of chief executive officer, and chairman of the board, and proponents of the idea that a merging of the two roles is preferable (Levy, 1993; Dalton et al., 1998). Proponents of duality argue that the combination of roles results in stronger, more unified boards (Dalton et al., 1998). Among the reasons advanced for this, Balia et al., (1996) assert that because the roles of chief executive and chairman of the board overlap, a separation between roles is divisive and potentially problematic. The authors make the point that unity of command is beneficial when crises arise externally, such as financial crises, because quick, unanimous decision making can take place. Additionally, proponents of board unity assert that a separation of the key roles does not result in demonstrably superior performance (Guo & Li, 2011). Other supporters of duality contend that adaptation to the external operating environment is easier when there is role duality (Mintzberg & Walters, 1990).

Proponents of separation, on the other hand, especially in the agency theory tradition, argue that non-separation leads to ineffectiveness of monitoring of the CEO by other members of the board (Abels & Martelli, 2013; Fama & Jensen, 1983). Boards are entrusted with making sure that chief executives execute their functions in a manner that serves the best interests of shareholders (Vance, 1983). Boards have an inherently built in purpose to monitor, which takes several different forms: hiring and firing chief executives and setting out compensation contracts and other such related oversight activity (Finkelstein & D'Aveni, 1994). Initially, the sentiment for role separation stemmed from stakeholders, such as board reform advocates, public pension funds and shareholder activist groups (Dalton et al., 1998). This conviction that the chief executive should not simultaneously serve as chairperson of the board, also affected the academic community (Lorsch & MacIver, 1989), primarily because of the agency theory concern that duality may increase the possibility that management would dominate the board. Supporters of separation assert that practicing role duality increases the power of the chief executive to the detriment of oversight functions of the board. Duality may increase independence of the chief executive, in terms of accountability for decision making (Jensen, 1994). Other reasons advanced for separation of roles are that the assessment of manager performance is harder when roles are combined (Pearce & Zahra, 1991), and that duality would give chief executives undue power over the agenda of board meetings, determining what information board members have access to, and hence their effectiveness (Ruigrok et al., 2006).

Additionally, vigilant boards, as advocated by agency theorists, favour non-duality or separation because a joint structure, by allowing a chief executive undivided authority, enables entrenchment of the chief executive, which may lead to opportunistic, suboptimal behaviour on the part of chief executives (Jensen & Meckling, 1976). Joint structure allows a chief executive wider latitude on a board and may contribute towards making a chief executive engage in actions that are counter to the interests of 'residual claimants' (Fama & Jensen,



1983). As much as duality of structure points to a non-separation of decision management and decision control (Fama & Jensen, 1983), vigilant board advocates amongst agency theorists may not favour duality of board structure.

In terms of agency, therefore, chief executive duality may represent a conflict of interest, whereby a chief executive who is tasked with setting the overall strategic direction of a firm is also in a position to be evaluator of the efficacy of strategy attainment (Finkelstein & D'Aveni, 1994). Interestingly, in terms of board performance, empirical findings differ as to the impact of separation. Some studies have found that separation of roles does not impact performance in any material way (Boyd, 1995). Some other scholars posit that if the existing status on duality is altered, due to legitimacy pressure, performance may suffer (Dey et al., 2011). Consistent with the negative view of duality held by proponents of agency theory, as regards board leadership structure, Rechner and Dalton (1991) found that firms practicing role separation outperformed firms with dual, or joint structure, when parameters such as return on equity, return on investment and profit margin are considered.

As mentioned earlier, adherents of agency theory, focus on monitoring and the prevention of entrenchment. They therefore posit that checking or avoiding duality limits potential chief executive entrenchment (Fama & Jensen, 1983). In the words of Weisbach (1988, p. 431), a board is “the shareholder’s first line of defense against incompetent management”. They are expected to be vigilant and exert impact on the firm that they oversee to a significant extent (Kosnik, 1987). A vigilant board may be comprised of a large component of outside directors, who have considerable personal stake in the company. Typically, outside or external directors focus more on financial performance and monitoring of the chief executive (Fama & Jensen, 1983; Weisbach, 1988). The insistence of agency theorists on the ability of vigilant boards to compel chief executives to follow the path of probity is therefore justified (Finkelstein & D'Aveni, 1994).

However, CEO duality is not always dysfunctional (Finkelstein & D'Aveni, 1994), and that unity of command may sometimes have positive organizational outcomes. Therefore, the observations of Stevens (2012) alert the researcher to the problems of duality in the Kuwait oil industry. The researcher therefore aligns with the agency theory position. However, it should be noted that a separation of roles does not necessarily improve firm performance (Krause et al., 2014). The performance of the chief executive depends on a range of factors, most of which may not be predicted in advance (Krause & Semadeni, 2013; Boyd, 1995). Ideally, therefore, boards seek the leadership structure best suited to the operating realities of their firm (Krause et al., 2014). As stated in Larcker and Tayan, (2015, p. 34) "Too much is made of separating these roles. ... It's really more about the people and whether they are competent and setting the right tone and culture". It is important to note that in practice, managers rarely separate roles. While some major corporations have split the chairperson and CEO roles, such as Kmart and American Express, a great majority of the others have combined leadership roles.

This study, taking an agency theory perspective, is concerned with the impact of duality in the Kuwait oil industry on strategic decisions. The above arguments, particularly from the point of view of scholars approaching separation from the agency theory lens, are therefore salient. This position is also the basis of the following exposition about the impact of duality on strategic decision making.

The contribution of boards to a company's survival and success is one of the more disputed issues in research in corporate governance (Tricker, 2009). Calls have been made for research into the involvement of boards in firm strategy (Coffee, 2005). There is consensus that the ways in which boards contribute to firm success, from both an empirical and theoretical standpoint, is not sufficiently researched (Zattoni & Pugliese, 2012). Earlier research, mainly from an agency perspective, interprets the board's role in strategy as an extension of the monitoring role (Baysinger & Hoskinson, 1990). However, this view has been criticized as

being too simplistic, as board contribution to and involvement in the strategy process is much more complex (Zhara & Pearce, 1989).

Specifically, the debate around boards and strategy has been influenced by two agency driven theoretical expenses: the conflict view and the consensus view (Zattoni & Pugliese, 2012).

The conflict view posits that managers are self-interested agents who need monitoring by selfless independent directors (Jensen & Meckling, 1976). Top management should therefore initiate and implement strategies, while the board should approve strategies and monitor their implementation (Fama & Jensen, 1983). The consensus, or stewardship view, in contrast, holds that managers are motivated agents acting in the firm's overall interests (Davis et al., 1997). Both boards and managers are a resource to the firm, therefore boards are considered not as enforcers, but as active participants in strategy formulation and implementation (Huse, 2007).

This study agrees with the conflict driven view. Agency theory is useful here because of its ability to describe the key governance issues, such as the tension between the Kuwait Oil Ministry and Parliament which are the principals, which manifests itself among the members of the board of the KPC and its subsidiaries which are their agents (Zattoni & Pugliese, 2012). The agency perspective also enables a clear solution to be proposed to these tensions through alignment implications.

### **2.7.1 Duality and Strategic Decisions**

Research in corporate governance has been engaged in a long search to establish a definite relationship between duality and firm performance. Starting with Rechner and Dalton (1991) a lot of studies have taken place, with conflicting results indicating the complexity of the relationship. Some studies took stockholder returns as a basis of assessment, while others

adopted accounting-based measures, such as profit equity ratios (Daily & Dalton, 1994; Daily, 1995; Donaldson & Davis, 1991; Krause & Semadeni, 2013). Extreme performance measures such as bankruptcy have been used as well. These studies operationalized organizational performance as the avoidance of bankruptcy. These arguments are premised on the hypothesis that duality would increase the likelihood of bankruptcy. This is because a lack of separation between the two roles may result in excessive risk-taking, which would lead to firm loss.

Outside directors are, potentially, a very rich source of expertise, considering the experience and intimate knowledge of the industry that they ideally bring to the table (Ruigrok et al., 2006). Through their involvement, external directors have the potential to enhance the quality of strategic decision making, thereby improving the firm's competitive position and market share. Ruigrok et al., (2006) posit that too much vested board power on the part of the CEO may not facilitate such strategic involvement on the part of the board. Since the role of the chairman involves the leadership of outside directors and encouraging their independent suggestions, as well as creating a constructive climate for strategic proposals on the board, the concern that this function may conflict with that of the chief executive is legitimate. Well-informed and therefore more influential board members may make valuable contributions and provide advice of strategic value. Also, the involvement of externals in strategy, and monitoring does not translate into conflict with the chief executive (Lorsch, 1995).

It may be expected, therefore, that a combination of roles or a joint structure may have an effect on strategic involvement and decision making. Given that agency theory is not in agreement with joint or dual structure, it may be expected that this effect on strategic decision making would be negative, when considered through the adopted agency lens of this study. This study is concerned with the effect that the practice of duality in roles in the Kuwait Petroleum Corporation may have on its strategic decision making. This relationship between

duality and strategic outcomes is therefore important to this study and is further shown in the conceptual integration and framework in Sections 2.9.1-2.9.4.

## **2.8 Agency Theory as Theoretical Lens**

Before reviewing the current state of knowledge on the adopted theoretical perspective of agency theory, other theories that have been applied in researching corporate governance will be briefly reviewed. This is to differentiate agency theory from them and justify its adoption (Tricker & Tricker, 2015).

Corporate governance is frequently assessed based on major theoretical frameworks. The main theories underlying corporate governance commenced with agency theory, expanded into stewardship theory, then to stakeholder theory, and transaction cost theory, and finally evolved into theories underlying business ethics (Farrar, 2008). Several governance researchers still use the concept of neo-classical economics to explain why certain business activities are carried out regarding a firm's structure, as well as to create policy implications underlying corporate governance. Thus, corporate governance in neoclassical economics suggests that a firm's key objective is profit maximization as opposed to the best interest of its internal matters (Cochran & Wartick, 1988). Braendle and Rahdari (2017, p. 4) argues that neoclassical economics is the "indispensable starting point" for the development of all latter corporate governance theories. Subsequently, as agency theory is regarded as the initial fundamental theory of corporate governance, both agency theorists and neoclassical economists agree that the main objective of a corporation is wealth maximization, and they commonly assume that managers cannot be trusted (Mele & Canton, 2014; Pepper & Gore, 2015). Overall, different corporate governance theories contribute their understanding of what a corporation is, and whose interest(s) corporations should specifically serve (Clarke, 2004). Differences exist in

defining what corporate governance is, and differences further exist in the creation of corporate governance structures which may include elements from various corporate governance theories and models. In general, a corporate governance structure combines a variety of governance mechanisms which attempts to assure the competence of a firm's managers in achieving the best interests of its various stakeholders (e.g. shareholders, employees) (Goergen & Renneboog, 2011). As previously mentioned, popularly widespread corporate governance theories underlying organizational research include, Transaction Cost Theory, Stakeholder Theory, Stewardship Theory, Institutional Theory, Resource Dependence Theory and Agency Theory.

Transaction Cost Theory, originated in 1937 by Ronald Coase, is focused on why firms exist and why they expand by sourcing out activities to their external environments (Htay & Salman, 1999). The Transaction Cost Theory is based on the notion that when you get another person to do something for you, the following transaction costs will emerge: (1) for example, when owners of a firm entrust directors to operate a business which they own (i.e. search and information costs); (2) the bargaining of the contractual terms between the principal (e.g. shareholder) and the agent (e.g. managers) (i.e. bargaining and decision costs); (3) and the monitoring of the agents behavior (policing and enforcement costs) (Williamson, 1989). When applied to the field of corporate governance, Transaction Cost Theory is looked at as an alternative variant to Agency Theory's governance assumptions (Kim & Mahoney, 2005).

Stewardship Theory emerged as a critique of Agency Theory developed by Donaldson and David (1991, 1993). Studies on Agency Theory show that even though the theory is dominant in corporate governance, it fails to address the psychological, and sociological issues that top management must deal with (Hirsch et al., 1987; Perrow, 1986). Doucouliagos (1994) further insists that the assumptions made by Agency Theory about managers' opportunistic

behaviors resulting in agency problems, do not apply to all managers and hence can be seen as bias. Thus, Stewardship Theory was introduced as an alternative theory to Agency Theory and defines situations where managers' behavior will continue to seek the best interests of the organization. Therefore, the theory assumes managers are pro-organizational and will not act in a self-serving manner (Davis et al., 1997).

As the business world has evolved over time, it has been required from corporations to perform a more significant role within its community and towards other stakeholders, in addition to shareholders. With this evolution the Stakeholder Theory has arisen (Solomon, 2007). This theory is interpreted as a broader approach of the Agency Theory, where the Agency Theory focuses on the assumption that shareholders are the only stakeholders of value and the main goal is to maximize shareholder wealth, the Stakeholder Theory says that the relationship of the firm with the other stakeholders such as creditors, suppliers, customers, employees and community is equally as important in order to have strong company performance (Chowdhury, 2012).

North (1991, p. 97) defines institutions as "humanly devised constraints that structure political, economic and social interactions". Institutional Theory is a widely popular economic theory which emphasizes legitimacy and isomorphism (DiMaggio & Powell, 1983). A significant assumption of the Institutional Theory is that if a corporation is viewed as legitimate and is abiding by the social and cultural norms of society, it will enhance its survival prospects (Townley, 2002) by gaining the trust of investors to invest (North, 1990).

Thus, as earlier mentioned, ever since the publishing of Jensen and Meckling's 1976 paper, Agency Theory has triggered the development of all the previously mentioned corporate governance theories. As a result, the subject of corporate governance today is used by scholars in different subjects, including finance, economics, law, accounting and organizational

research (Yocam & Choi, 2010).

### **2.8.1 Agency Theory**

Agency Theory addresses the “ubiquitous” agency relationship in which a single party delegates work to another party who is expected to perform that work (Eisenhardt, 1989, p. 58). The theory assumes that due to the self-interest of agents (i.e. managers), and to the separation of the risk bearing function of ownership (i.e. shareholders) and the managerial function of control, owners and managers frequently impose a contrasting nature of interests within an organization (Cowgill, 2014; Chowdhury, 2012; Prowse, 1998). Hendrikse (2003) explains that because of this misalignment, conflicts of interest and information asymmetries arise. Agency literature refers to these issues as agency problems (Mitnick, 2015; Tosi et al., 2000; Eisenhardt, 1989; Fama & Jensen, 1983; Mitnick, 1973). The infamous agency problem, which is inherently perceived as an outcome of the separation of ownership and control of a firm's assets, was first acknowledged in literature in the 18<sup>th</sup> century in Adam Smith's book (1776) *The Wealth of Nations* (Biswas et al., 2008). Other studies such as Jensen and Meckling (1976), Berle and Means (1932), and Eisenhardt (1989) present the extent to which the concept of power separation has become manifest in corporations worldwide (Biswas, 2008). In the context of corporate governance, the agency problem refers specifically to the difficulties shareholders have in confirming that their wealth is not wasted on unprofitable projects (Shleifer & Vishny, 1997), as when managers are given the discretion of making decisions, they may engage in non-value maximizing behaviour (Arnold et al., 2017; Prowse, 1998). The agency problems which arise due to problems between shareholders and managers of a firm emerge due to a variety of possible causes such as information asymmetry, conflicts of interest, or the divergence of risk sensitivity of owners and managers (Lan et al., 2010; Biswas et al., 2008). Berle and Means (1932) argued that shareholders of a corporation possess legal control whereas managers have the effective control, and as corporations increase in size,



communication (or ‘symmetrical information’) between managers and shareholders becomes more and more distorted leading to problems between the two groups. Hence, information asymmetry refers to the situation whereby the agent knows something relevant pertaining to a decision which the principal does not know about, and the principal is not able to ensure if that undisclosed information has been used to his/her best interest and /or the best interest of the firm (Biswas et al., 2008). Conflict of interest involves a situation where interest of two different parties are incompatible because each is looking to serve their personal needs. Divergence of risk sensitivity refers to the various levels of risk that principals and agents incur. For example, since the agent is the decision maker, they are barely incurring any risk because all the losses will be acquired by the principal. This especially occurs in firms when shareholders offer financial support to their firm and managers abuse that opportunity to their discretion (Foss & Stea, 2014). Common forms of agency problems have taken place through organizations, which involve shirking (i.e. the assumption that owners tend to do less work when their return is smaller), the consumption of perquisites (i.e. privileges), and alternative behaviors demonstrating opportunism (Nyberg et al., 2010; Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976).

This deviation of interests within this precise principal-agent relationship (i.e. shareholders and managers) is recognized in literature as ‘agency loss’ (Koch, 2016). Koch (2016) explains that the more the agent of a firm acts based on his or her self- interest, the less optimal the outcome of the principal becomes. When the agency loss is zero that means zero conflict of interest exists between the principal and agent. On the other hand, the lack of such interest alignment results in an organization having to deal with the agency costs. In the sense of the matter, agency costs refer to the decline in a firm’s value due to manager opportunistic behaviour (Bromwich, 1992). Jensen and Meckling (1976) argue that as principals pursue the limitation of agency problems, they incur monitoring costs and bonding costs (i.e. costs

endured by agents ensure principals that they are working in their best interest). Yet, given existing monitoring and bonding tools used, owners will never completely be able to fully guarantee that managers will maximize their utility. Hence, residual losses will always exist to various extents (Robbins et al., 2010; Heath, 2009).

Since the publication of Jensen and Meckling's (1976) pioneering paper, researchers have tried to posit solutions to the agency problem in corporate governance (Cormier et al., 2010; Fama & Jensen, 1983; Saam, 2007; Renders, 2012). Proposals have included creating highly contingent long-term incentive contracts *ex ante* to align interests between managers and investors. These contracts must genuinely attract managers while offsetting their self-interest with the interest of owners (Shleifer & Vishny, 1997), and since these contracts will be expensive for the firm, agency costs arise. Other incentive schemes include executive compensation and remuneration to align interests of principals and agents (Chowdhury, 2012). Compensating managers through performance-based stocks, as research has shown, can also be a very efficient tool in aligning interests of shareholders and management because it will lead managers to act as owners of the firm, which ultimately benefits both principals and agents within the given organization by reducing "managerial mischief" (Nyberg et al., 2010, p. 1029). Nevertheless, the fundamental posited solution for the agency problem portrayed in literature is the alignment of incentives between owners and managers by compensating managers, and by providing them with their firm's equity ownership (Fama & Jensen, 1983; Jensen & Meckling, 1976; Eisenhardt, 1989).

These incentive schemes are commonly based on the following two dimensions: financial alignment, and alignment of preferences and actions. Financial alignment occurs whereby the agent's economic remunerations "co-vary" with those of the principal's through financial compensation (Nyberg et al., 2010, p. 1029). The alignment of actions and preferences involves aligning the agent's preferences with the owners' preferences, as well as

aligning the agent's actions with the principal's interests, even though they are motivated by their self-interest (Dalton et al., 2007; Dalton et al., 1998; Jensen & Meckling, 1976; Mitnick, 1973). In fact, Nyberg et al., (2010) argue that how financial alignment is created (e.g. equity shared, outcome-based contracts) may possibly impact the managers' risk preferences in such a way that it leads them to make decisions that are more or less risky than optimal from what owners would desire. The use of the agency perspective in providing insight into governance issues arising from the operation of the corporate governance mechanism of the board, is reviewed next.

### **2.8.2 Agency Theory and the Board of Directors**

Modern literature in corporate governance explains how essential a board of director's role is, even though its influence cannot be observed in daily tasks. Due to this lack of transparency, the financial crises of 2008 blamed weak board structures for the collapse of Enron and the financial crises in 2008 (Taylor, 2003; Mallin, 2013; Al-Wasmi, 2011). Ever since the 2008 financial crises, increasing arguments and extreme perspectives have taken place between researchers on defining the role of boards. On the one hand, boards have been assumed to play a supervisory role. The supervisory role assumes boards are merely overseers of top managers, and the firm's decision making is not within their jurisdiction (Clarke, 2009; Zattoni & Pugliese, 2014). On the contrary boards have also been assumed to play a managerial role. The managerial role assumes that board members directly manage their company and are heavily associated with the decision-making (Eisenhardt, 1989). These two different roles of boards have been studied in different business environments and contexts under the corporate governance discipline. (Pugliese et al., 2014).

The Agency Theory adopts the latter role of boards and views the board of directors as an acting body on behalf of the shareholders, and therefore it assumes that the board plays a

critical role in the controlling, monitoring and remunerating of a firms' managers. This characterization of boards is applicable not only in academic literature (Nofsinger, 2017; Mitnick, 2015; Smith, 2012; Shapiro, 2005; Fama & Jensen, 1983), but equally applied in practical corporate governance literature (OECD, 2015). Among the various roles of the board of directors, controlling and monitoring are of the uttermost importance (Smith, 2012; Brennan, 2013). Subsequently, agency theory literature views the board as the main mechanism for controlling managerial behavior on behalf of a firm's shareholders (Pugliese et al., 2014; Jensen & Meckling, 1976; Eisnehardt, 1989), as a tool for managing risk (Jensen, 1993). Hence, Jensen (1993) argues that the composition of a board is a critical tool for executive monitoring to be effective. Supporters of Jensen (1993) have examined various elements of what constitutes an efficient board such as board size, experience and independence, in terms of monitoring, despite the lack of a theoretically ideal board composition. Moreover, a board in agency theory is responsible for compensating managers by combining their wealth with the wealth of shareholders, i.e. incentive pay. However, Smith (2012) argues that the effectiveness underlying this issue is the tradeoff aspect between optimal compensation packages and optimal levels of risk (Miller et al., 2002).

The idea of **multiple agency**, wherein agency relationships between and among numerous principals and agents, is an emerging perspective in research on corporate governance (Hoskisson et al., 2013). It is a reaction to the theoretical insufficiency of the classic view of the agency problem that considers just a sole principal and a sole agent (Jensen & Meckling, 1976). The notion of multiple agency is more faithful to the empirical reality that there are often several principals and several agents involved in an agency relationship. For example, the rise of several very large institutional investors that together hold majority ownership of major western corporations serves to support this reality. Multiple agency

therefore recognizes that the divergence of interest is not simply between principal and agent, but also between principals and between agents (Hoskisson et al., 2013).

Principal-principal conflict has been given recognition in the literature on agency (Dewatripont & Tirole, 1994; Hart & Moore, 1995; Pouryousefi & Frooman, 2017). For example, dominant shareholders, such as the institutional investors mentioned in the previous paragraph, may use their power at the expense of minority shareholders. In the context of this study, there are two principals: the Kuwait Oil Ministry, representing the executive arm of government, and the Parliament, representing the legislature struggle for control of Kuwait's National Oil Company. This difference in their interests leads to a principal-principal agency relationship with associated costs (Ward & Filatotchev, 2010). This study posits that the associated agency cost is that the conflict between the two principals shifts to the Board of Directors, where it manifests between their appointed agents, which are the directors that owe their appointments to their allegiance to one of the two principals. This study is aimed at explaining the issues of governance that arise on the board because of this transferred conflict of interests and this will be done through the perspective of the board members themselves.

### **2.8.3 Arguments Underlying Agency Theory**

The earlier optimism portrayed by management researchers on the validity of agency theory for understanding organizational behavior (i.e. Eisenhardt, 1989) is declining. Scholars have begun to question the theory's potential pertaining to the financial, preference and action alignments between principals and agents of an organization (Heath, 2009).

Critics of agency theory consider it a "narrow approach" (Al-Wasmi, 2011, p. 12) to corporate governance as it only defines the relationship when principals of a firm delegate authority to agents of that firm (Solomon, 2007). Hirsch, Friedman and Koza (1990) claim that the Agency Theory solely focuses on the share value of the firm and addresses no real economic

problem, and that the theory is untestable because it barely examines any actual events (Perrow, 1986). Scholars such as Ross (1973) degrade the Agency Theory by suggesting that “examples of agency are universal” (Ross, 1973, p. 134). In many cases in the existing literature, critics of the Agency Theory doubt that the shareholder-manager relationship is effective due to the agency problem; they identify a conflict of interest between the two and they see it as degrading because it assumes pessimistic actions of humans (e.g. managers). A biased approach can lead to exploitation of the workers in a firm (Yusof, 2016; Moore, 2016 Perrow, 1986).

Moreover, studies evaluating agency theory claim that even though the theory is dominant in corporate governance, it fails to address the psychological and sociological issues that top management deal with (Hirsch et al., 1987; Perrow, 1986). Solomon (2011, p. 11) argues, that the “monstrous” characterization made by agency theory about managers’ opportunistic behaviors and rationality does not apply to all managers. Bosse and Phillips (2016) indicate that alongside the characteristic of exhibiting opportunistic behavior, agency theorists assume that humans are incapable of refraining from opportunism, unless they are motivated by some external incentive structure. They regard this as an unsatisfactory framework of rational human behavior and claim that that theory suggests that rationality encourages individuals to carry out a variety of immoral actions, including deviousness, fickleness and treachery, and that it also presumes that this rational person will treat other people with doubt and suspicion (Bosse & Phillips, 2016).

Ethicists protest that by simply using an economic model, agency theorists are in no position to assume that people do not possess altruistic motives (Farkas, 2016). They argue that by creating unflattering assumptions about human nature, agency theory is limited to its ability to merely provide empirical explanations of why corporations have taken on structures influenced by certain sets of incentives rather than “telling people how they should behave”

(Heath, 2009, p. 500). Another prominent line of objection to agency theory is its limitation to a narrow range of structural and organizational contexts alongside its implicit disregard for a wide range of structural determinants of agency outcomes by holding structure constant (Kiser, 1999). Perrow (1990) believes the theory to be politically biased because it demonstrates no regard for the possibility that principals may act opportunistically to exploit agent, thus solely focusing on “the sins of the powerless, not the powerful” (Kiser, 1999, p. 150). Recently, ethical criticisms underlying agency theory seem to have increasingly focused on the existing bias towards the agent. Pouryousefi and Frooman (2017) address this problem of unilateralism by arguing that it is impossible to conduct successful economic transactions when the theory attends strictly to the moral obligations of one player (i.e. the agent). They engage with the asymmetric information stream of agency theory to reducing such bias. Hence, two bilateral features are suggested: (1) hat swaps, which consist of principals and agents alternating roles, and (2) role dualism, which refers to both players, principal and agent, imposing agency risk to each other in their simultaneous roles as agents and principals (Pouryousefi & Frooman, 2017).

In defense of agency theory, empirical results in literature to date finds that advocates of the agency theory argue that "the foundation for a powerful theory of organizations has been put into place" (Jensen, 1983, p. 324), and that it is an economic methodology used for analyzing and assessing how efficient managers in a corporation perform in maximizing shareholder wealth (Bonazzi & Islam, 2007; Hillman & Keim, 2001; Baiman, 1990). Linder and Foss (2013) suggest that although assumptions underlying agency theory have attracted a considerable amount of criticism, they do have a certain strength, which is the explicitness of their nature. Although it has been repeatedly contended that the agency framework is not likely to take into respect the appropriate nature of human action, it provides a framework. This framework permits modelling of a large number of more or less diverging assumptions, and

facilitates more testing of advantages and disadvantages of alternative corporate governance modes and incentive schemes (Tourish, 2014). Nevertheless, agency theory does not only overtly identify the agency problem, but also provides a cure for it. This cure, wherein agency problems can be minimized as corporations rely more heavily on performance based-contracts rather than on fixed salaries, has contributed greatly to management practice especially in European and Northern American corporations (Laffont & Martimort, 2002).

Overall, agency theorists study the problems and solutions associated with task delegation pertaining to conflicts of interest and information asymmetries (i.e. agency problems). Alongside the assumption of opportunistic agents, the theory assumes the rationality of principal and agents, *ex ante*, which refers to veiled characteristics of agents, and *ex post*, which refers to their hidden actions. The theory provides valuable monitoring and incentive schemes for creating contracts between principals and agents, and its wide adaptability has had an immense scientific impact in various disciplinary contexts, particularly management and economics. Yet, like all theories, agency theory has incurred various criticisms over the years. Nevertheless, scholars have exerted many efforts to apply the theory to diverse considerable contexts, while also addressing its limitations (Husted, 2007).

The literature on agency theory is multidisciplinary and massive. It is beyond the scope of this review to cover it in its entirety, just as it is beyond the scope to examine all the arguments underlying the uses, abuses, criticisms and rejections of the theory. The researcher carefully selected the previous overview of agency theory as it delivers the appropriate foundation for this study.



#### **2.8.4 Resolving Agency Problem Corporate Governance**

Different corporate governance mechanisms have been suggested in the literature and implemented by different organizations to tackle the agency problem. However, it is not always possible to completely get rid of such problems because not all corporate governance mechanisms are equally effective, considering the context in which they are utilized. Their effectiveness is highly often dependent on the existing legal, social and political structure of a particular country (Wang, 2014). As a result, blind adoption of corporate governance instruments following other countries without considering such differences, may not result in the desired outcomes (Larcker & Tayan, 2015). Corporate governance is more likely to be effective in countries where different mechanisms are chosen by considering factors such as level of development of the capital market and the effectiveness of the legal system in protecting investors' interests (Liu & McConnell, 2013).

From the perspective of agency theorists, corporate governance is considered an effective instrument for reducing agency problems (Biswas et al., 2008). Agency theory refers to corporate governance as “a network among various corporate players such as shareholders, managers, employees, lenders, government, suppliers and consumers for increasing firm value” (Biswas et al., 2008, p.9). Hassoun and Hassoun (2017) claim that agency problems in firms today can be mitigated by the protections derived from efficient corporate governance structures. Therefore, the success of a firm's achievement of its strategic goals relies heavily on the effectiveness of its governance structure (Okeahalam & Akinboade, 2003). An individual company's corporate governance structure involves a combination of various context appropriate mechanisms which drive it towards its organizational objectives (Barrett, 2002). Different corporate governance structures, as reviewed in the literature, involve a hybrid of internal and external control mechanisms aimed at addressing agency problems (Essen et al., 2013). Commonly discussed governance structures underlying corporate

governance research encompass ownership structures and board structures (Bekiris, 2013). An organization's ownership structure can be defined based on two dimensions; the extent of ownership, and the nature of ownership. The extent of ownership refers to whether ownership is dispersed, whereas the nature of ownership refers to whether firms are private, state-owned or mixed (Tusiime et al., 2011). Corporate governance literature recognizes that a company's board structure mainly involves the following governance mechanisms: board composition (Shivdasani, 1993; Pearce & Zahra, 1992; Baysinger & Butler, 1985; Hermalin & Weisbach, 1988); board independence (Bhagat & Black, 2001; Rosenstein & Wyatt, 1990; Fama & Jensen, 1983); board size (Pfeffer, 1972; Chaganti et al., 1985; Singh & Harianto, 1989; Boone et al., 2007); and a board's leadership structure (Dalton et al., 1998; Rechmer & Dalton, 1991).

## **2.9 The Context: Governance in the Kuwait Oil Industry**

A review of the context of the research serves two purposes. The research is focused on the effect of board composition and board leadership structure on firm level strategy, in the context of the Kuwait oil industry, through an agency theory lens. This is necessary for a sense of the current state of the context. Secondly, this section reviews current research on governance in the state-owned Kuwait oil industry, to be able to ascertain the contributions that this study will make.

### *National Oil Companies*

State owned entities known as 'National Oil Companies' or NOCs, control the global Oil and Gas Industry. Various rationales have been offered for the formation of national oil companies. Briefly, one such explanation is that governments with leftist ideologies adopted statist policy that reflects the belief that state ownership better promotes economic development, the redistribution of national income and the upholding of national pride (Jaidah,

1978). Another explanation is that governments create national oil companies to garner mass support, to serve as convenient political instruments, and to act as a means of dispensing patronage (Vickers & Yarrow, 1989). Thirdly, and most significantly for this study, was the view from the principal-agent relationship theorists. Governments were concerned with the international oil companies acting as effective agents for the developing of their oil and gas resources, fearing that foreign ownership and control would give rise to lost rent, lost control over the rate of extraction and threats to sovereignty (Grayson, 1981).

### *The Kuwait Petroleum Corporation*

Historically, the KPC was created through the means of a concession agreement in 1934. Initially named the Kuwait Oil Company, it operated as a joint venture between the Anglo Persian Oil Company and Gulf Oil. This concession covered all of Kuwait and had an exclusivity that prevented any foreign or local competition (Stevens, 2012). By 1960, the Kuwait Government had created the Kuwait National Petroleum Company, KNPC, as its national oil company, intended to operate alongside the Kuwait Oil Company (KOC). Similar to others in the region, a push for nationalization resulted in a takeover of the KOC in 1974 (ibid). The KPC was then created via the ‘founding law’ of 1980 which allowed it to control all oil related subsidiaries.

### *Problems and Prospects*

The assumption of control over the subsidiaries came with serious issues of governance because the KPC’s subsidiary companies were subject to normal Kuwaiti commercial law which was applicable to any company; while on the other hand, the laws enabling the KPC were tailored at state control and ownership, and were therefore more constraining (Al-Sabah, 2017; Ghabra, 2014; Stevens, 2012). Substantial changes to the ‘founding law’ therefore

required political legislation which was much more difficult to obtain in the existing political gridlock. This gridlock arose from the split in authority between the Government and the National Assembly that occurred in the wake of the Iraqi invasion. Although intended to achieve greater democratic participation, the enabling of the assembly had the effect of creating ambiguity in power between the Executive, which is appointed by the Emir, and the Parliament, appointed by popular election (Al-Sabah, 2017; Stevens, 2012). As the executive and the assembly are not accountable to each other, paralysis results in policymaking as it is subject to lengthy negotiations and approval. This dysfunctionality in the Kuwaiti political system has affected the KPC in the sense that it is unable to stick to a coherent long-term strategy. The assembly has adopted the tactic of attacking the KPC, instead of attacking the government directly. To illustrate this undue interference, it has been estimated that strategic choices that require four decision steps in IOCs, require, at a minimum, thirty-six steps in Kuwait oil subsidiaries (Stevens, 2012). Additionally, as the Oil Minister is also the Chairman of the KPC, an enduring lack of stability in the position of the Oil Minister has worsened the outlook, in terms of strategic decision making. Crucial for this study is the observation that where the Chief Executive of the KPC has sought better performance, the role is often constrained by the CEO's inability to sustain internal and external context that is conducive to this. A separation of the roles of Oil Minister and Chairman, which gives the holder double veto, has been advocated as a long overdue reform (Ghabra, 2014; Stevens, 2012). This may enable more independence of the board and management and it is a fundamental concern for this study regarding the research question, 'How does board leadership structure affect strategic decision making in the KPC and its subsidiaries?'

Also, the varying personnel quality at the KPC has been noted. While senior managers are often of undoubted ability, the middle to low level cadres are often of lesser quality, particularly in the technical areas (Victor, Hults & Thurber, 2012; Stevens, 2012). Personnel

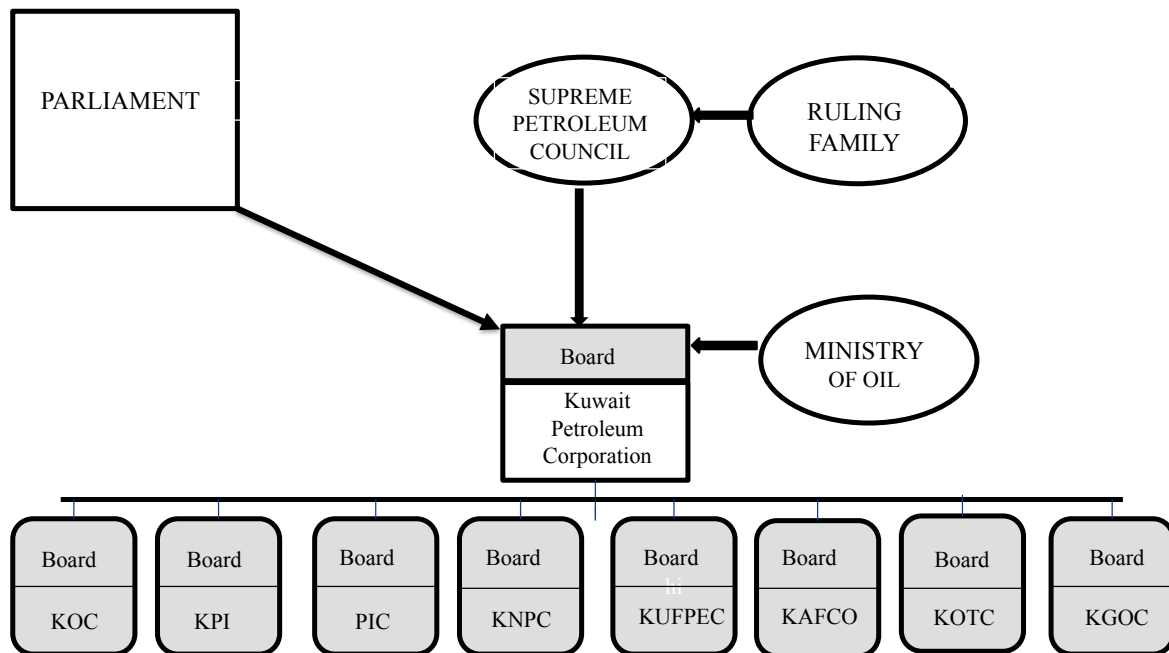
are assigned to roles for which they possess insufficient experience and knowledge, and this kind of approach reflects the wider governance system and its inherent political interference. This is responsible for the undue meddling in promotions and appointment (ibid).

In addition, high oil prices, as recently experienced, have positively benefited the Kuwaiti economy. These benefits, however, have tended to conceal the governance problems. Essentially, a vast and growing oil reserve coupled with a small population, may ensure that it would be a long time before the effects of these systemic problems highlighted are felt. By assessing and highlighting some of these dysfunctions, this study may be beneficial to policy makers in the Kuwait Government and Parliament (Al-Atiqi, 2005; Stevens, 2012).

#### *Current Organization and Performance Strategy of the KPC*

The original structure envisioned for the KPC was that of a vertically integrated organization that would maximize the state's benefit from the whole value chain of activities, from drilling to marketing. This was, in part, to deepen information asymmetries between the KPC and the Government (MEES 46:50,2003; Stevens, 2012). Figure 2.2 below shows the organizational structure of the KPC. As the reporting lines indicate, the board answers to two political institutions, the Parliament, and the Executive represented by the Supreme Petroleum Council, the SPC. In turn, the boards of the eight subsidiaries report to the KPC's board.

**Figure 2.2: Organization Structure of the Kuwaiti Petroleum Sector**



Source: Adopted from Stevens, 2012

However, as the organizational and governance chart in Figure 2.2 shows, the lines of authority are at best undefined and unclear. This is a symptom of the lack of a clear strategy as earlier mentioned (Al-Atiqi, 2005; Stevens, 2012). These problems with authority, shown above, are rooted in aspects of the ‘Founding Law’ of 1980 which distorts the KPC’s strategy making and performance. Firstly, the Founding Law splits authority over strategic decision making between the KPC, and its shareholder the SPC, the Government’s Supreme Petroleum Council. The law allows recommendations from the KPC to the SPC on personnel and internal budgeting, with the SPC retaining the mandate to set personnel policy and seek approval for budgeting from the parliament and government. Although part of government, the SPC is an independent organ. There is therefore lack of transparency when the government sets the KPC policy, partly through the SPC, and partly through the Oil Ministry. The government interest

is itself split between the Emir, who controls the Executive, and the National Assembly (Al-Sabah, 2009; Stevens, 2012).

As mentioned earlier, while the KPC is subject to direct governance by the SPC, its subsidiaries are run under normal Kuwaiti corporate law. This unusual situation means that while the KPC is unable to create new subsidiaries under its own authority, its existing subsidiaries can do that in the normal course of business (Ghabra, 2014; Stevens, 2012). To compound this, the roles of the Oil Ministry and parliament are not clear. Board decisions of the KPC must be ratified by the Oil Minister, who also appoints the CEO, and is himself the Chairman of the board of the KPC. While apparently aimed at ratifying control of the KPC's board, this dual role has sometimes resulted in counterproductive moves such as Oil Ministers approving a decision as Chairman of the board, and then countermanding it as Oil Minister (ibid). The National Assembly's role is undefined, yet it has approval veto over the budgeting of the KPC and is therefore able to substantially influence its strategic outcomes (Atiqi,2005).

In terms of performance, the KPC produces comprehensive, regular, and audited information of its financial activities which are consolidated figures of its subsidiary operations. In terms of fiscal systems, the KPC subsidiaries earn profit by selling the products they refine. The downstream sector is notably profitable and refining capacity is near optimal (Stevens, 2012). In terms of operational costs and performance, low production costs are prevalent due to a geology that allows ease of exploitation. As earlier mentioned, although characterized by a relatively highly skilled upper echelon, mid to low level employees are noticeably less skilled in comparison to their counterparts in IOCs. This is mainly because of political interference, the severity of which deserves further explanation (Al-Sabah, 2017).

Political interference occurs largely because of a uniquely Kuwaiti style system of nepotism characterized as 'Urf'. It is a local variant of a Gulf cultural characteristic known as 'Wasta' (Aldossari & Bourne, 2014). Important figures in government and parliament are often

the arrow heads of much wider affiliations to whom they owe patronage and by whom they are continually pressured. As this informal, countrywide traditional system is quite pervasive, it often negatively impacts policymaking, resulting in aberrations such as personnel recruited above their level of competence, and once recruited, almost impossible to terminate (Al-Meles, 2007; Stevens, 2012).

This study, focused on the effect of governance issues on strategic decisions as a key firm level outcome in the Kuwaiti oil sector as illustrated in this vignette, may help in reducing the lack of clarity in governance that characterizes the sector.

### **2.9.1 Conceptual Framework**

To outline the conceptual framework for this study, and to summarise of the state of knowledge of the field of corporate governance, agency theory, and the Kuwait NOC context is done next. Then an integration is shown in Figure 2.3.

### **2.9.2 Corporate Governance**

Corporate governance, the processes according to which an organization or firm is given direction and control (OECD, 2010; Cadbury, 2002), is also understood as the way a firm's structure and shareholder rights are defined (Monks & Minows, 1991). It has gained prominence in recent times by default. This is because there is a lack of proper mode of corporate governance, leading to the well-publicized failure of firms such as Enron. Corporate governance has been examined from ethical, economical and philosophical perspectives and comprises a mix of the disciplinary areas of economics, accounting, finance, organizational behaviour, politics and law. Its purpose, overall, is to guarantee efficiency of monitoring and control, to delimit individual power, and to foster optimal relations between a firm's directors, managers, shareholders and the broader stake-holding public (Pouryousefi & Frooman, 2017).



This study is concerned with the impact of corporate governance issues pertaining to board composition, board characteristics and board leadership structure in the Kuwait National Oil Company. The aim is to assess and explain the impact of these issues on strategic decisions in the Kuwait Petroleum Corporation and its subsidiaries.

### *Agency Theory as a Perspective*

Agency Theory, which portrays shareholders as a firm's solely valuable stakeholders, is based on the perception of managers acting as agents on behalf of shareholders (Jensen & Meckling, 1976). The identified problem of governance in the Kuwait Petroleum Corporation which informs this study suggests the suitability of the agency theory assumptions given its focus on the protection of shareholder (Kuwaiti citizens) ownership. In addition, the tension between the Executive and the Parliament which shifts into the board, and the subsequent conflict between directors that owe their appointments to either of the two political interests, is well suited for analysis through an agency-conflict perspective. This is in comparison to alternative theories underlying corporate governance: (1) Transactions Cost Theory, which focuses on efficient attainment of transactions; (2) Stewardship Theory, which reverses the role of agency, portraying managers in an altruistic manner; (3) Stakeholder Theory, which exceeds shareholders as the only valuable stakeholders; and (4) Institutional Theory, which explains the process of adoption of context-specific corporate governance mechanisms due to certain pressures for a company to be viewed as legitimate.

### **2.9.3 Board Characteristics, Composition and Leadership Structure**

Board composition is the mix of independence, skills, demographics and other necessary attributes possessed by board members. Although results of research on the influence of board composition and characteristics on strategic decisions, have been inconclusive

(Bhagat & Black, 1998), composition is however posited to impact on strategic decisions through other variables such as ties to other firms, and personal relationships and affiliations. Agency theorists postulate that independence is the most significant board level variable for firm level performance (Carter & Lorsch, 2004). In the context of the Kuwait Oil Company, despite the limited research on composition, and strategic decisions (Stevens, 2012), it may be expected that in keeping with the research question of the study, the composition of the boards of the KPC and its eight affiliates will impact strategic decisions.

Advocates of Agency Theory are of divided opinion in terms of separation between holders of the position of CEO and Chairman of the Board, and proponents of the opinion that a merger of the two roles is preferable (Dalton et al., 1998). Those in favor of duality maintain that role combination makes for stronger more unified boards, while those that propose separation argue that duality causes poor monitoring, poor assessment of performance, information asymmetry and overall board ineffectiveness (Ruigrok et al., 2006). In the context of the Kuwaiti oil industry which informs this study, it may be expected that duality, particularly of the Oil Minister as Chairman of the KPC's board, and multiple directorships among the subsidiaries, impact the efficacy of the organization's strategic decisions.

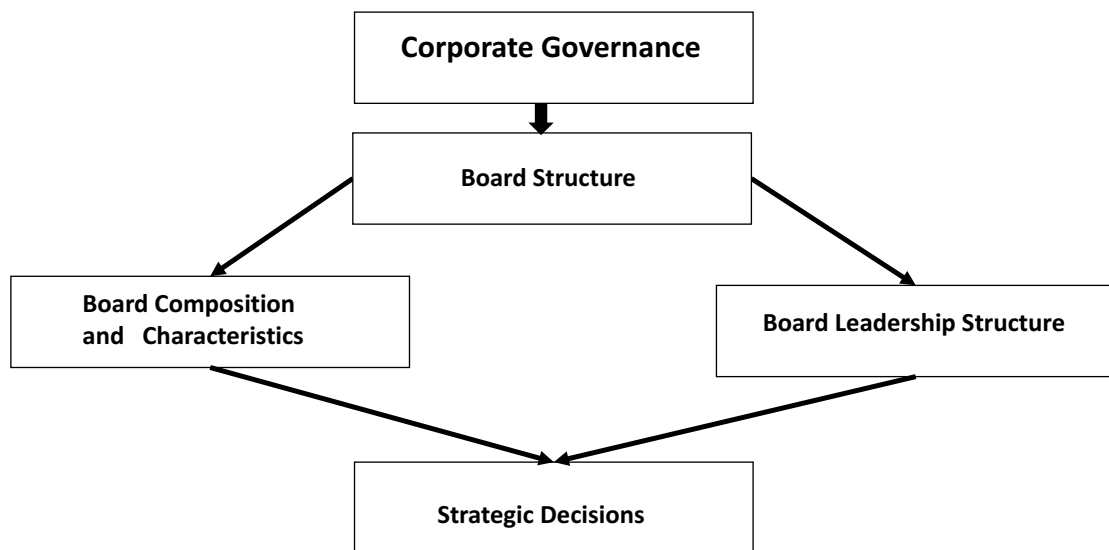
#### **2.9.4 Strategic Decisions**

Strategic decisions, as a key firm level outcome, is a primary focus of this study. It may be anticipated that composition, characteristics and leadership structure, as highlighted above, will heavily influence strategic decision quality. However, because of the difficulty of obtaining board level information, research about the effect of composition and leadership structure on strategic decisions, has been largely a result of inference (Dalton et al., 2009). That is, evidence linking board level variables to certain strategic outcomes, has been inferential. This study, based on access to actual board members of the Kuwait Petroleum Corporation and

its subsidiaries, may be of significance because, in contrast to quantitative inference, it relies on the recollection of actual events by board members.

These expectations are framed in the conceptual framework shown in Figure 2.3.

**Figure 2.3: Conceptual Framework**



Source: Author Illustration

This study is focused on the issues of board structure, characteristics and composition and their impact on strategic decisions. As illustrated in the conceptual framework in Figure 2.3, board composition focuses on the independence and characteristics of the boards. In parallel, the primary emphasis of board leadership structure is role duality. This is in agreement with the questions that inform this research, as set out on Page 9 in Chapter 1.

The current study is based on the anticipation that board composition and board leadership structure may impact strategic decisions in the context of the Kuwaiti oil sector.

### **2.9.5 Potential Gaps**

Addressing the research questions and related conceptual linkages shown above, may lead to some gaps in the literature of corporate governance and agency being met.

Firstly, Pouryousefi and Frooman (2017) postulate that a major limitation of agency theory arises from the likelihood that the principal, in a principal- agent relationship, is equally capable of behaving in an opportunistic manner as the agent, by posing agency risks of inefficient use of resources, misappropriation of resources, passive opposition and shirking. This unilateralism in the principal-agent relationship is commonplace in the seminal texts on agency theory (Jensen & Meckling, 1976; Walsh & Seward, 1990; Eisenhardt, 1989; Milgrom & Roberts, 1992). The Kuwaiti context is characterized by actions of board members in favor an external political constituency and self-interest (Stevens, 2012). By assessing the impact of the actions of board members on firm level strategic outcomes, this study may provide a concrete depiction of a reverse in the unilateralism pointed out by Pouryousefi and Frooman (2017) in agency theorizing. That is the result of the opportunistic behavior of the dual principals can be shown by exploring the perceptions of the agents that act on their behalf on the board.

Secondly, dual structure has been regarded as far too complex to be viewed in a unilateral manner, with dual CEOs being considered to have too much unchecked power, and with separate CEO and chairman roles being considered ideal for corporate governance (Krause et al., 2013). It is recommended that new contexts be explored in parallel with potential theoretical possibilities, such as the reversal of unilateralism mentioned above, to uncover this nuance in the CEO dichotomy. This study explores the influence of duality on the optimality strategic decisions in the Kuwaiti oil sector. By so doing, it may meet calls for further nuances regarding the CEO duality dichotomy mentioned above.

Additionally, much of the literature in agency theory surmises the impact of board composition and role duality on firm level outcomes such as strategic decisions by inference (Forbes & Milliken, 1999). This study, predicated on the recounting of actual members of a national oil company (NOC), may provide the empirical qualitative nuance which is required to counter this reliance on statistical inference.

Moreover, there is limited research regarding the way employees of state-owned enterprises are incentivized by their parent ministries (Stevens, 2008). This is in part due to the difficulty of obtaining information regarding remuneration and incentives from actual directors of boards. This current research may contribute to literature by depicting how the Kuwait Ministry of Oil is perceived by members of the Kuwait Petroleum Corporation and its subsidiaries.

Another potential gap relates to the difficulty of conducting empirical research in national oil companies, particularly regarding the ties between the state, the elected representatives, and the board members of these state-owned enterprises. This opacity is often because of the consideration that such enterprises are of strategic importance, and they are therefore shrouded in secrecy (Krause et al., 2013; Stevens, 2012). This is so much so that it is speculated that almost any kind of information on the inner workings of these NOCs will be of scholarly value (Stevens, 2012). This study, by the researcher's access to key players in the Kuwaiti oil industry, may address such calls.

## **2.10 Conclusion**

In conclusion, this chapter represents a critical assessment of the state of knowledge regarding corporate governance, the Board of Directors as a mechanism of governance, issues of board composition, characteristics and board leadership structure and their potential impact

on strategic decisions. This, through the agency theory perspective, is done with the implications for corporate governance in the Kuwaiti oil sector in mind.

Separation of ownership and control as a corporate governance mechanism is critically overviewed, as are current conceptualizations of corporate governance. The continuing importance of the focus on corporate governance is shown by spotlighting the failures in corporate governance that preceded the global financial crisis of 2008. In addition, this review contrasted alternative theories of corporate governance to justify the choice of agency theory as a critical perspective lens. Following this, agency theory is then related to the current literature on boards, with the mechanisms of composition and leadership structure critically discussed. The existing and potential linkages of board independence, characteristics, duality and the firm level outcome of strategic decisions are highlighted.

To provide contextual information, an up-to-date vignette of the Kuwaiti oil industry is presented. The historical and legal origins of the Kuwait Oil Corporation and its subsidiaries are discussed, and the problems of governance in the sector highlighted.

The chapter concludes with an integration of the theory reviewed, in the form of a conceptual framework, shown in visual form. After which some of the potential gaps that this study may reveal are set out in detail. This chapter provides the theoretical foundation that informs the research methodology and design adopted in the next chapter on research methodology.

## **Chapter 3 Research Design and Methodology: Assessing Governance and Agency in the KPC**

### **3.1 Introduction**

In the previous chapter, the existing literature was reviewed through an agency theory lens to develop a conceptual framework for explaining how board members of the Kuwait Petroleum Corporation, and its eight subsidiaries, perceived the impact of the board's composition, characteristics and its leadership structure on the efficacy of strategic decisions. This chapter explains the philosophical assumptions that underpin the study. In addition, it presents and justifies the research design used to carry out the framework that was set out at the end of Chapter 4.

Section 3.2 identifies the philosophical assumptions that this study is founded on, and discusses the research paradigm the current research is situated within. Section 3.3 discusses and justifies the adoption of a qualitative research approach. Section 3.4 describes the study's research strategy, and justifies the basis of using a single case study approach. Section 3.5 reconciles the case study strategy with the aims of this study. Section 3.6 further explains the research design and provides background for the case. Section 3.7 presents the data collection strategies, including fieldwork, access, interviewing and transcription. Section 3.8 sets out data management, security and ethical approval processes followed, while Section 3.9 sets out the procedures for data analysis including data condensation, data display, and the drawing and verification of conclusions. This section also discusses issues of trustworthiness including confirmability, dependability, triangulation and credibility. Finally, Section 3.10 discusses the conceptual basis for adopting perceived efficacy as indicator of the quality of strategic decisions. This chapter is then concluded with a summary of research design.

## **3.2 Research Philosophy**

In outlining the philosophical assumptions that underlie this study, it is necessary to contrast the position that this researcher adopts with other prevailing paradigms. This study aims to explain the perceived impact of governance issues of board composition, board characteristics and board leadership structure on the efficacy of strategic decisions, as perceived by board members. It therefore adopts an interpretative stance. To justify this adoption, the alternative paradigm of positivism is discussed briefly in Section 3.2.3. The constructivist ontology of the study is also discussed in Section 3.2.2.

### **3.2.1 Research Paradigm**

A research paradigm is a set of general philosophical assumptions about the dynamics of the world, and how we understand it (Maxwell, 2012). According to Willis, Jost & Nilakanta (2007), a paradigm is a broad conceptual framework that addresses foundational questions such as ‘What is the nature of knowledge?’ ‘What sources warrant attention?’ ‘How confident can we be that we know something?’ and ‘What should the relationship between practice and research be?’ The applicability of every paradigm is dependent on how it helps in answering the research question(s) of a study and, most importantly, how the research design is customized to capture relevant information from the field. Thomas Kuhn (1996) refers to a paradigm as a broad range of philosophical assumptions about the natural dynamics of the world (ontology), and how people understand these dynamics (epistemology) (Maxwell, 2012). Hence, a paradigm summarizes a researcher’s belief regarding their efforts to create knowledge. It is a belief system based on ontological, epistemological and methodological assumptions that influences the type of knowledge the researcher wants to find, and how that knowledge is interpreted (Guba & Lincoln, 1994).



Methodology, on the other hand, is a way to solve research problems systematically (Rajendra, 2008), by showing how the relevant knowledge was acquired, and how data was gathered (Hennink et al., 2011). It is the process by which the researcher systematically studies the research problem and tries to understand the logic behind the problem (Rajendra, 2008). The use of the term ‘methodology’ has frequently been confused with the term ‘method’. A study’s research methodology is underpinned by the epistemological and ontological considerations which provide the concepts, assumptions, and theories which underline the research methods, whereas research methods are the step by step techniques the researcher takes for conducting their research (Bryman & Bell, 2015).

This research, focuses on the perceived impact of board composition, board characteristics and board leadership structure on strategic decisions’ efficacy at the KPC and its related subsidiaries. It therefore assumes a constructive ontology, and is centered on an interpretivist epistemology, adopting an inductive qualitative strategy.

### **3.2.2 Ontological Considerations**

Ontological considerations are concerned with the nature of reality of social entities (Creswell, 2013). The focus of ontology here is whether social entities can be relied upon to be objective entities that have a reality external to social actors, or whether they can and should be perceived as social constructions built from the expectations and behaviors of social actors (Bryman, 2015). These two extreme opposite positions are referred respectively as objectivism and subjectivism (Bryman, 2015).

Objectivists argue that reality exists external to a researcher, and is independent from human perception, and hence should be examined scientifically, where meaning is discovered and not constructed (Gray, 2013). In contrast subjectivists believe that reality is not independent of human perception and belief (Bryman & Bell, 2015; Powers et al., 2014).

Although objectivity and subjectivity are the most frequently referred to ontological positions, Gray (2013), elaborates on a third ontological standpoint; constructivism. He argues that although several researchers standardize between subjectivism and constructivism, a difference does exist.

Researchers adopting a constructivist ontology reject the notion that an objective reality exists. They argue that meaning and truth are created through the interaction between the subject and the world (Gray, 2013). Constructivists assert that interpretations of social phenomena are established by social actors (Bryman & Bell, 2011; Saunders, Lewis & Thornhill, 2012;). Social actors construct their personal meanings (Gray, 2013). Lincoln and Guba (1985) explain that arising from this process, concepts and constructs exist in the minds of social actors, and the researcher is responsible for understanding, reconstructing, analyzing, and critiquing these concepts and constructs, in a way which leads to further clarification, and reification, thereby adding to human knowledge.

Accordingly, the researcher adopted the ontological stance of constructivism. This bestows on the researcher the opportunity to engage in depth with the social world of the organization being studied, which consequently enables the research subjects to respond to various issues depending on their personal experiences, interpretations and their understanding of these phenomena (concepts and constructs), while allowing the researcher to create reality from the perceptions of these actors who are collectively experiencing the same phenomenon. Hence, this study aims at understanding and explaining the perceived impact of board composition, board characteristics and board leadership structure on the firm level outcome of efficacy of strategic decisions, as perceived by board members. The research questions aim to provide insights into the perceptions of the board members on the efficacy of strategic decisions and the accompanying strategic projects that are undertaken in the KPC and its eight subsidiaries. This was achieved by identifying themes of board member perception of this

impact, and the resultant outcomes of this impact as will be seen in the latter stages of this methodological chapter.

### **3.2.3 Epistemological Considerations**

#### *Positivism*

Where ontology relates to the nature of reality, epistemology is the study of knowledge, more particularly it is primarily concerned with the questions ‘How do researchers know what they know?’ (Creswell, 2013; Krauss, 2005), and ‘What should be (or what is) regarded as acceptable knowledge in a discipline?’ (Bryman, 2015). Positivism and Interpretivism are the two basic epistemological paradigms underpinning organizational research.

A positivist epistemology assumes that the researcher is independent of their research, and that their research is completely objective (Wilson, 2014). Positivists stipulate that by being independent, researchers maintain minimal interaction between them and their research subjects when carrying out a study (Daymon & Holloway, 2011). For positivists, the concrete world is external (Hennink et al., 2011), and there is a single objective social reality, which is quantifiable (Carson et al., 1988). In other words, positivism detaches the researcher from the phenomenon being researched, by distinguishing between science and personal experience, as well as fact and value judgement (Edirisingha & Materiality, 2012). Positivists advocate that observable evidence is the only form of scientific findings, hence, the objectivity of these findings leads positivist researchers to make context free generalizations (Saunders et al., 2009). The main criticism of positivism is the disregard for human behavior (Crossan, 2003), and the objectification of human beings in the process of searching for new knowledge and truth (Lincoln & Guba, 1987).

### *Interpretivism*

The interpretivist epistemological paradigm emerged in response to the drawbacks of positivism as highlighted in the previous section. Certain key features set the interpretivist epistemological stance apart from the positivist stance.

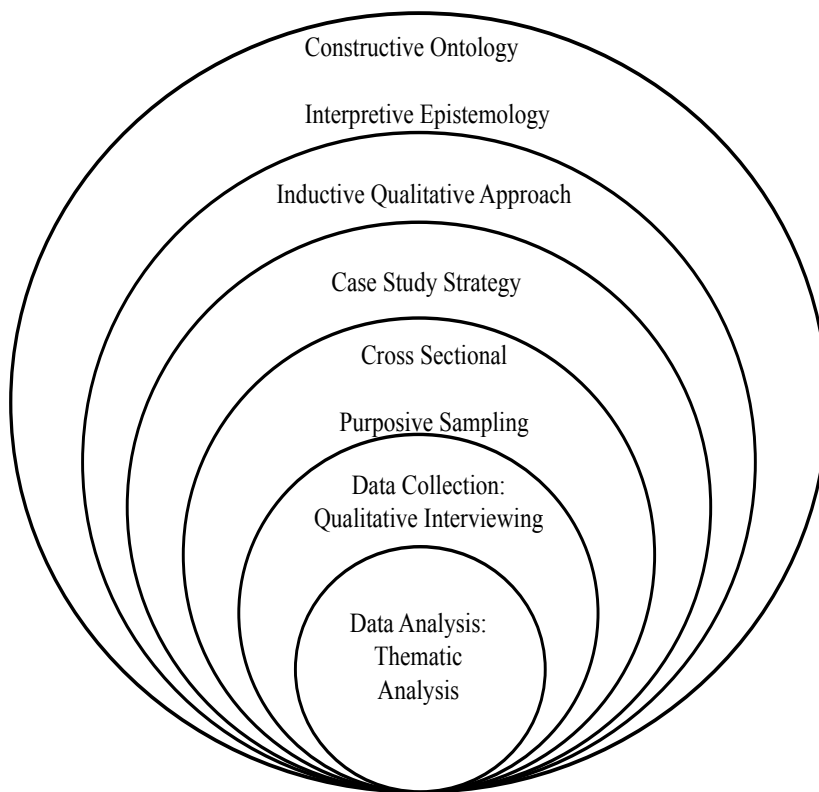
Firstly, the interpretivist seeks to unpack the subject's life experience from the perspective of the participant themselves (Smith, 2015). In place of a focus on 'facts' the interpretivist researcher aims at studying the meaning that people attach to their experiences (Smith et al., 2009). The interpretivist, therefore, places emphasis on interpretation and observation, seeking to access a social reality that is created by the participants' social, cultural and historical contexts (Hennink et al., 2011). This acknowledgment of human experience as subjective, allows the appreciation that reality has multiple viewpoints/perspectives, as opposed to positivism's unitary, one-sided perspective of reality (Saunders et al., 2016).

Since the aim of this study is to understand and explain the perceived impact of board composition, board characteristics and board structure on strategic decision efficacy, as perceived by board members, it is therefore rooted in an interpretive epistemology stance. In collecting information about the workings of the KPC board, and those of its subsidiaries, the researcher 'observes'. Meanwhile, by analyzing the meaning making that ensues at the board level, the researcher 'interprets' (Deetz, 1996).

In addition, the interpretivist researcher co-participates in meaning making. The researcher does not stand apart from meaning making in context but is part of it. In interacting with members of the board of the KPC and its subsidiaries and trying to discern the meaning making behind their actions, the researcher is also part of the ensuing meaning making, a priori. An interpretivist epistemological orientation is therefore suitable for this study.

In summary, the ontological, epistemological and methodological positioning of this study is demonstrated in Diagram 3.1. In addition, the case study strategy, data collection method utilized, and the mode of data analysis used, are also depicted.

**Figure 3.1: Research Foundations**



Source: Adopted from Saunders, Lewis & Thornhill, 2011

### **3.3 Research Methodology**

It is important to discuss in some depth, the research methodology adopted, and to compare it to the alternate methodology, to fully justify the choice. Research methods follow from the philosophical underpinnings and are the basis of the research strategy and design that is ultimately adopted (Symon & Cassell, 2012).

Qualitative based studies demonstrate the concern of researchers to precisely explain, interpret and understand the meanings of facts taking place in their normal social settings. Qualitative research is less expected to force limitations on the assortment of data (Saunders et al., 2009). It is the study of the interpretive standards that individuals utilize to make sense of their symbolic experiences (Patton, 2015). In addition, the qualitative technique is the study of contextual standards, such as respondents' roles, the physical environment and sets of situational actions that assist the interpretation of a specific discussion (Silverman, 2013). The main advantage of the qualitative technique is the fact that it involves a process of gathering a more realistic sense of the world that cannot be obtained via the mathematical, numerical and statistical analysis utilized in quantitative research (Creswell, 2013).

In contrast, quantitative research methods emphasise objectivity, or a supposed distance from data. The researcher neither participates in, nor influences what is being studied. Generalizations are usually independent of context. The quantitative research approach assumes that human behaviour is predictable, in contrast to the qualitative, which assumes that human behaviour is mutable, dynamic and situational. In addition, quantitative researchers focus on numbers and statistics, while qualitative researchers emphasise images, objects and words. These differences in approaches are outlined in Table 3.1.

**Table 3.1: Contrasting Research Methods**

<b>Criteria</b>	<b>Qualitative Research</b>	<b>Quantitative Research</b>
<b>Purpose</b>	Prediction and control Understand and interpret social phenomena	Understanding the description and interpretation of behaviour
<b>Group Studied</b>	Selected, redefined and narrow variables are used	Use a holistic and comprehensive approach
<b>Type of data collected</b>	Data personal but inconsistent, people driven	Data impersonal but consistent and numerically driven

<b>Form of data collected</b>	Words, images or objects	Numbers and statistics
<b>Instrumentation</b>	The research is the primary data collection instrument	Tests and instruments
<b>Objectivity and Subjectivity</b>	Subjectivity defines most of the responses	Objectivity is critical
<b>Role of researcher</b>	Guides the research process by taking part in it	Researcher should completely stay away from guiding respondents
<b>Reality</b>	Dynamic, changing values and perceptions	Stable, quantifiable facts
<b>Results</b>	Detailed context-based generalizations	Universal context-free generalizations
<b>Orientation</b>	The responses elicit answers and theories	Predetermined hypotheses are tested
<b>View of human behaviour</b>	Research is conducted under natural conditions	Research is conducted under controlled conditions
<b>Focus</b>	Uses a broad spectrum to establish facts of a case	Narrows down its focus to a specified hypothesis to guide the research
<b>Nature of reality</b>	Dynamic, changing perceptions and values	Stable, quantifiable facts
<b>Final report</b>	Focus is on getting rich and thick data	Focus is on replicable but thin and flat data

Sources: Adopted from Bryman & Bell, 2011; Symon & Cassell, 2012; Silverman, 2015.

A qualitative method provides the opportunity of capturing people's meanings, definitions and descriptions of events in their voices (Hogg & Vaughn, 2005). A researcher who uses this methodology is one who is inclined towards the 'natural point of view and the interpretive appreciation of human experience' (Patton, 2015). In choosing a research method, the research question should determine the research method instead of the researcher's orientation dictating the research method to be used (Glesne, 2015). The research methodology

utilized to evaluate the perceived impact of board composition, board characteristics and board leadership structure on the KPC and its eight subsidiaries, is the qualitative approach. A qualitative approach is apt, as it will help in unpacking the perceptions of the members of the boards of the impact of composition, characteristics and leadership on strategic decisions. This study is one of social interactions, and the perception of such interactions by participants. The researcher, in analysing the experience of these interactants, is not a passive observer, but is necessarily immersed, and subjective (Silverman, 2013). The researcher seeks to understand strategic decisions made at the mother company and the subsidiary companies from the perspective of the respondents. Therefore, she takes into consideration that a combination of social and physical phenomena affects individuals in various capacities and she avoids an attempt to understand them through a pre-determined framework.

### **3.3.1 Justifications for Adopting a Qualitative Methodology**

This study seeks to probe how board members understood their roles and the perception of those roles on the efficacy of strategic decisions in the KPC and its subsidiaries. It therefore follows that the data to be obtained from this explanatory approach will be discursive, comprising of narrations of board members about their perceptions of power structures and the perceived impact of such structures on the efficacy of strategic decisions. This focus on understanding and perception and the discursive nature of the data obtained justifies the usage of a qualitative method strategy.

The researcher, as a citizen of Kuwait, had preconceived opinions about the KPC, and the Kuwaiti oil industry in general. Expectedly, these opinions may impact judgments that the researcher makes in analysing the perspectives of subject participants. That is, the researcher is not an inanimate observer, but is germane to the process itself (Flick, 2014). In contrast to



the ‘objectivity’ required of a quantitative approach, this subjectivity characterizes this study as qualitative (Bryman, 2015). Overall, this research aims to achieve a theoretical understanding of the perceived impact of board composition, board characteristics and board leadership structure on the efficacy of strategic decisions in the KPC and its subsidiaries, as perceived by the members of the board.

### **3.4 Research Strategy**

This qualitative study, concerned with the perceived impact of corporate governance mechanisms on the firm level outcome of strategic decision efficacy as perceived by the members of the boards of the KPC and its subsidiaries, adopts a single case study research strategy.

As mentioned above, this study, by design, aims at an empirical in-depth investigation of a specific phenomenon: the ‘impact’ highlighted above, in the context of a state-owned monopoly enterprise, the Kuwait Petroleum Corporation and its eight subsidiaries, in the Kuwaiti economy. This research aims to conduct an in-depth investigation of a context that is lacking in clear boundaries between the phenomenon and the context itself, inherently making it a case study (Baxter, 2008; Remenyi, 2013; Yin, 2014).

To justify this choice of strategy, alternatives such as grounded theory, ethnography, experiment and surveys, are compared against the case study approach adopted.

#### **3.4.1 Alternative Strategies Examined**

Grounded theory has been used among studies where knowledge on the phenomenon to be researched is limited (Strauss & Corbin, 1998). Grounded theory does not commence with a meticulous review of existing literature. Rather, the researcher’s aim is to initially explore, and derive the theory which is implicit in the data (Saunders et al., 2009). Thus,

grounded theory is especially suitable for studies which are looking at new phenomena, where an existing theory is not applicable, whereas a case study approach is based on an extant theory (Flick, 2014).

Therefore, this approach was not contemplated as a suitable approach for this study, as the research did not commence with a meticulous review of the literature and is being examined through the perspective of the already existing theory of agency. This study is therefore an extension of an existing theoretical perspective, and not a new conceptualization.

Ethnography requires a researcher to describe and interpret behaviour of cultural or ethnic groups (Creswell, 2013). The researcher is expected to be immersed in the daily lives of people within that group. This means the ethnographer will have to spend an immense amount of time in the field. The necessary data collection method used in an ethnographical approach is participant observation. However, the challenge of participant observation is that it is time consuming, as it is not prudent for the researcher to make any generalizations about the data unless they are confirmed through repeated observations (Creswell, 2013).

On the other hand, case studies require an investigation of an event, instance or person, and don't require data to be collected through participant observations (Stake, 2005). This study is not concerned with establishing different patterns of culture or the interpretation of behaviour of any group, but rather with perceptions of, and insight into, a group of board members. The data collection method adopted in this research was in-depth, semi-structured interviews, as opposed to the observation of a study's participants. Hence, the use of an ethnographic approach was discounted.

Experimenting is more relevant to the field of natural sciences. However, it is still utilized in the social sciences particularly in the field of psychology (Saunders et al. 2009). It implies hypothesis formulation and testing (Saunders et al., 2009). However, the explanatory

nature of this study precluded the testing of a hypothesis, and the necessity for an experimental design (Bryman & Bell, 2011).

Surveying is a popular strategy used amongst researchers in the field of business and management. It is more commonly associated with the deductive approach (Saunders et al., 2009; Bryman, 2015). It allows the researcher to collect quantitative data from a sample within a large population, which could be analyzed to suggest possible connections between variables while producing models as an output of these relationships (Saunders et al., 2009). However, the ability to investigate and understand the context is limited by the number of variables of which the data consists (Saunders et al., 2009).

On the other hand, case studies involve an in-depth study of a specific issue which may be unclear; a case in point being this study, where the perceived impact of board composition, board characteristics and board leadership structure on perceived efficacy of strategic decisions, in the context of the Kuwaiti petroleum industry, is unknown. Additionally, this research aims to provide insight into, and to shed light on, interrelationships within the board of the KPC, and with the KPC board and its eight subsidiaries. It is not measuring or testing, and the adoption of survey methods is therefore precluded (Bryman & Bell, 2015).

### **3.4.2 Justifications for Adopting Case Study Research Strategy**

In keeping with the research questions on Page 9, firstly, a case study approach enables a focus on a phenomenon which is unclear in context, the phenomenon here being the perceived impact of certain mechanisms of corporate governance on strategic decision efficacy. Such a research strategy allows the researcher to be immersed in the context of the Kuwaiti oil industry, and in the case of the KPC and its subsidiaries as a state-owned enterprise (SOE).

Secondly, as will be seen in the section concerning analysis, the adopted case study strategy allows researchers to constantly move back and forth between theory and data and comparing the two to attain a suitable fit (Eisenhardt, 1989; Ragin, 2004). Additionally, a vital feature concerning the case studies is their tendency to foster the triangulation of multiple sources of data (Eisenhardt, 1989; Yin, 1984). As will be further explained in the coming sections of this methodology, the intention of the case study pertaining to this research is one of particularization rather than generalization (Stake, 2005). Therefore, member checking of participants' responses is used as a means of validating the study's findings (Birt et al., 2016; Creswell, 2007; Torrance, 2012). Additionally, the researcher compared interview responses during coding as a means of validation by showing consistencies between these responses (Flick, 2014; Silverman, 2013).

### **3.4.3 Choice of Case Study Type**

Stake (2000) identifies three types of case studies; intrinsic, instrumental and collective. Key purposes of adopting intrinsic, or instrumental case study designs, could be to better interpret various social realities (Guba & Lincoln, 1994) to build theory (Eisenhardt, 1989; Yin, 2012), or to test an existing theory (Yin, 2003). An intrinsic case study, as opposed to an instrumental case study, is used when the purpose of research is to gain a better understanding of a case and extend an existing theory without the intention to generalize (Langley & Royer, 2006; Zainal, 2007). Thus, the current study adopts the intrinsic case study as the research design and aims to apply an existing theory (i.e. Stake's (2005) agency theory), to gain a deeper and more insightful understanding of a phenomenon which exists in a particular single case: The Kuwaiti oil sector. Generalizability is therefore not the primary aim of the study. Moreover, this case study is one of an explanatory nature as it examines the data closely at a

surface level using holistic coding, and in depth using first and second level coding, to sufficiently capture the phenomenon in the data.

#### **3.4.4 Criticisms of Case Studies as Research Strategies**

Some critiques have been made of case study research. The first, concerns the lack of rigour associated with case studies in comparison to other strategies (Maoz, 2002; Yin, 1984). Yin (1984, 2014) argues that in many cases, the biases of researchers have influenced the results and conclusions of their case studies. This is due to the lack of texts which provide a step by step methodological system for case study investigators to follow (Yin, 2014). However, Bennett & Elman (2006) argue that an increasing number of contemporary practitioners have developed methodological texts of specific procedures concerning case study research. To avoid any biases, the researcher adopted Stake's (1995) approach to develop this case study. The second criticism concerns the challenge of generalizability of case studies due to their "small number of subjects" (Yin, 1984, p. 21).

Three vital qualifiers support the argument for case study generalizability. First, as Yin (2009, 2014) proposes, the aim of case studies is to be generalizable to theories, as opposed to populations. Second, when the investigators' intention is directed towards researching a particular single case, the relevance of generalization to population is low (Willis, 2014; Yin, 1984, 2014). Hence, the intention of this case study is one of particularization, and the study is therefore generalizable to the guiding theory of this research (i.e. agency theory). Nevertheless, the findings of this case study may not be generalizable to other contexts. Thirdly, it has been found that when researchers strategically choose their case(s), this in turn increases the ability of the researcher to make generalizations to the population (Seawright & Gerring, 2008). Although the purpose of this research is generalizability within the context of advancing agency literature, a strategic approach was undertaken when selecting the respondents for this

study. As such, the research has the potential to provide generalizations to populations, but this is not the intent of the research and, as such, emphasis is placed on particularization of those cases (Seawright & Gerring, 2008). For this research, a single case study was strategically selected based on the value that its context holds over the economy of a single country. An additional concern regarding case studies is the lengthiness of conducting case study research, and the immense number of incomprehensible documents they produce (Stake, 2005).

### **3.5 Reconciling the Case Study Strategy with this Study's Research Aims**

To reiterate, this study is one of a subjective nature, and positions itself in the interpretivist paradigm. The case study is designed to focus on the Kuwaiti oil sector which is the bread and butter of the Kuwaiti economy and counts for almost 93% of its GDP (Fatima & Mehboob, 2017). This may serve as a pointer to the intrinsic worth of the study. Also, a major aspect of this single case is the impact of politicization, and parliament. Kuwait is uniquely the only Gulf country which contains an active parliament voted in by universal suffrage (Stevens, 2012). In addition, an existing theory, agency theory, is applied and assessed regarding this context. Also, to be considered is researchers' motivation as a Kuwaiti citizen prompted by the earlier mentioned importance of the oil sector in Kuwait. The following objectives pertain to this single case study: to explore, and describe board composition, board characteristics and the board leadership structure of the Kuwait National Oil Company (mother company), and its subsidiaries; to explore and describe the relationship of the mother company's board composition, board characteristics and board leadership structure; and to explain how that relationship influences the efficacy of strategic decisions; to explain the perceived impact of board composition, board characteristics and board structure of the mother company on efficacy of strategic decisions; to explain the perceived impact of board composition and characteristics on the subsidiaries' strategic decision efficacy; to provide viable

recommendations for policy makers in the oil sector to enhance the board structure, with a view to contributing to more viable outcomes of strategic decisions/projects, and to avoiding the risk of the high costs that are associated with those decisions. It is also hoped that identifying the problems that cause these costs will sensitize policy makers to have an appreciation of the impacts of these practices.

The overall aim of this study is to achieve the above objectives in order to develop a principal- agent framework, as an extension to agency theory, of a monopoly state-owned enterprise which possesses subsidiaries.

### **3.6 Research Design**

#### **3.6.1 The Kuwait Petroleum Corporation and the K-Companies**

This section of the chapter provides an overview of the case study context: The Kuwait Petroleum Corporation. Its purpose is to provide an introductory vignette (Miles & Huberman, 1994; Pettigrew, 1990).

Kuwait's national oil company, the Kuwait Petroleum Corporation (KPC), is 100% government owned. The company acts as an umbrella to its eight subsidiaries known as the K-companies in Kuwait. The Supreme Petroleum Council (SPC), chaired by the Kuwait Prime Minister, in theory, is presumed to be the "ultimate authority" of the oil sector. Other members of its board include the Governor of the Central Bank, five different ministers, and nine members from the private sector. Conversely, in practice, studies have revealed that if it wasn't for the few private sector members who sit on the SPC's board, the SPC would be a complete rubber stamp, due to the SPC's history of authorizing inefficient strategic decisions of the oil sector (Stevens, 2008; Tetreault, 1995). In addition to answering to the SPC, the KPC is also accountable to the Kuwait Parliament. However, the parliament and the SPC are not

accountable to each other because the parliament's source of authority is the public, through elections, whereas the government answers to the Emir of Kuwait (Stevens, 2008).

The most recent corporate governance structure in Kuwait's oil sector consists of two main cases of role duality. The Oil Minister chairs the board of the KPC, and the CEO of the company sits on its board of directors as the Deputy Chairman. Since the structure of the oil sector is characterized by struggles and arguments between the Oil Minister and the National Assembly (Westall & Fineren, 2014), and since the Oil Minister chairs the KPC, this undoubtedly has affected the National Oil Company and its subsidiaries, due to the vertical integration of the organization (Stevens, 2008).

The Iraqi invasion significantly affected the Kuwaiti oil sector. It caused the exodus of highly skilled Palestinians and Algerians who were expelled because their countries had supported the Iraqi incursion into Kuwait. This had the net effect of lowering the quality of the personnel in the oil sector, as these expatriates were replaced with Kuwaitis, without proper regard being paid to fitness for the roles.

Additionally, the constant disputes arising between the KPC, its only shareholder the SPC, the National Assembly and the Ministry of Oil has resulted in distrust within the oil sector itself and towards international oil companies, and even more critically their effect on the KPC's operations have been critical, which for one has been reflected by their strategic decision-making process (Tetreault, 1995). Since then, the KPC's strategy has been described as "incoherent" and "foggy" (Stevens, 2008).

An area of concern regards two phenomena local to the Kuwaiti culture, Wasta (i.e. nepotism) and Diwaniyahs, which is a meeting place for men to discuss vital social, political and cultural issues (Aldossari & Bourne, 2014; Al-Naser, 2001; Fox, 2014; Stevens, 2008) which are deeply engrained not only in Kuwaiti society but in corporate culture as well. Several aspects have contributed to the spread of Wasta. One of these factors, as Mohammed and



Hamdy (2008, p. 3) explains is for the elite “to maintain their grip on authority”. They further elaborate that “Arab political regimes tend to place close confidants in key positions even if they are not the most qualified for such positions” (Mohammed & Hamdy, 2008, p. 3). Stevens (2008, p.18) defined *Wasta* as “the relationship between client and patron with the patron proving *Wasta* or influence for their client in dealing with others”. Within the context of the Kuwaiti oil sector, *Wasta* plays a major part in the appointment of board members and senior managers, which eventually influences the promotion of managers since the CEO of the KPC and its subsidiaries also sits on the board (Aldossari & Bourne, 2014; Stevens, 2008). *Diwanayahs*, meanwhile, are considered the heart of the Kuwaiti culture, and literally mean living rooms built on the outside of a home where people meet and discuss mainly political matters. People from all levels of the Kuwaiti economy, political and social systems gather in *Diwanayahs*. This is where many *Wastas* are requested (Al-Naser, 2001; Weir et al., 2016; Herb, 2009).

Political interference has always played a large role in Kuwaiti society (Hertog, 2013). Previous studies have implied that it usually has a negative influence on the country’s government sector (Al Atiqi, 2005; Bindemann, 1999. Ghabra, 2014; Stevens, 2008; Ulrichsen, 2016; Weiner, 2017). With a weak corporate governance structure being blamed for financial downfalls, and parliamentary interference, the governance structure of the Kuwaiti oil sector therefore must be examined and recommendations for policy change made. The two main concerns revealed previously are regarding the composition of key leadership positions and role duality in the governmental oil sector (i.e. the KPC and its eight subsidiaries).

The National Oil Company of Kuwait regards its leaders as its main resource, in the same way that the country considers oil to be its main resource. This belief in leaders as a main resource, stems from the expectation that they are best placed to make the most valuable

contributions to the development and sustainability of the Kuwait national oil industry (Al-Atiqi, 2005; Stevens, 2012;).

Therefore, investing in leaders, at the board and CEO levels, further serves to strengthen the ties between the KPC and its subsidiary companies. Committing resources to leader development at the board and CEO levels in the subsidiary companies, serves to increase the overall commercial viability of the KPC, by empowering leaders to make timely decisions, and effectively utilize the considerable autonomy granted them in managing their operations. Investment in leader development therefore, may have the net effect of causing the subsidiaries to improve their contribution towards achieving the strategic goals of the KPC, at the same time maintaining a level of autonomy in their operations. The SPC and the KPC are committed to achieving their vision of bettering the KPC and its subsidiaries, per bench marking against the performance of the international oil companies. This commitment is not evident between the KPC and its subsidiaries. The vision of optimality as benchmarked against the international majors, in terms of commercial viability, may be hampered by the KPC's involvement in subsidiary issues, such as authorization for capital approval, and autonomy in human capital allocation. In comparison to the private sector, the KPC allows its subsidiaries relatively little leeway in capital allocation. It also unduly interferes with human capital allocation, insisting on appointing the board members of the subsidiaries. These issues conceal the considerable investment in leader development per the board and the CEOs, and negate the vision of parity of practice with the international oil majors (Al-Sabah, 2017; Stevens 2012).

There are conflicting patterns of reporting regarding the board of the KPC, as are shown by its obligations to parliament, to SPC and to the Ministry of Oil, and it is these issues of governance that inform this study.

### **3.6.2 Unit of Analysis**

This study aims to explore the perceived impact of board composition, board characteristics and board leadership structure on the efficacy of strategic decisions regarding the KPC board and those of its subsidiaries. The units of analysis for this study is therefore the board of the KPC. Although the most distinct feature of this research is the board, the context in this case is a state-owned enterprise which is equally relevant for consideration as a unit of analysis. This choice of unit of analysis is in conformity with Rowley (2002) who requires a unit of analysis to be in keeping with the purpose, research question, propositions and the overall theoretical framework of this study. Following this, the board members of the KPC are the unit of observation of this study.

#### *Sampling*

Guided by the unit of analysis set out in Section 3.5.2, the researcher interviewed board members from the KPC and its subsidiaries. At any given moment, the KPC and its subsidiary boards are statutorily required to have 56 board members. Regarding sampling, it is necessary to give a detailed exposition of the technique the researcher adopted (Daymon & Holloway, 2011; Saunders, Lewis & Thornhill, 2007;). As this study is aimed at assessing board members' perception of the perceived impact of board composition, board characteristics and board leadership structure on strategic decision efficacy, members of the sample necessarily had to be chosen from current or immediate past board members. This requirement of immediacy of the ex- board members is premised on the fact that their perceptions and insights would equally contribute to the ensuing analysis of the studied phenomenon. Thus, the researcher used purposive snowball sampling (Daymon & Holloway, 2011; Patton, 2002; Symon & Cassell, 2012) to sample for participants among the KPC and subsidiary boards. This was done to find those who were able to have the most informative, informed and effective opinions about the

phenomenon in question. The initial access to interviews was facilitated by one of Kuwait's ex- oil ministers, who served from August 2013 to January 2014. This individual was responsible for providing access to the final two participants of the pilot study, as will be explained in the next section. To proceed from the first to the final individual interviewee, the researcher 'snowballed' (Bryman & Bell, 2015; Saunders, Lewis & Thornhill, 2009). Within this process, the researcher to the best of her ability pushed for interviews with current or immediate ex- board members who have the reputation of being influential characters in the history of the oil sector, and who have been heavily involved in infamous strategic projects which pilot study members have initially focused on in their interviews. Thus, an 'open door policy' relationship was established with most interviewees. This facilitated the opportunity to conduct 'member checking' which has been supported by Birt, Scott, Cavers, Campbell and Walter (2016) as a means of improving the validation of the study. This will be discussed in detail under Section 3.9 Trustworthiness.

Having achieved access to 30 interviewees and after having gone through the data and taken into consideration the time, scope and further access constraints of a doctoral study, the researcher was convinced that theoretical saturation had been achieved. This is in keeping with Creswell, Hanson, Plano and Morales (2007) and Marshall and Rossman (1995) who suggest that 15 to 30 interviews may be adequate for establishing data saturation in a qualitative case study strategy.

### **3.7 Data Collection**

#### **3.7.1 Fieldwork**

The data collection consisted of two stages: 1) A pilot study ( Bryman & Bell, 2015; Eihikiyoa, 2009), and 2) in-depth semi structured interviews (Jamshid, 2014; Patton, 2014; Saunders et al., 2007).

### *Stage One: Pilot Study*

The pilot study commenced with the following question being uppermost in mind: “How will the research topic be received by the participants involved?” (Kim, 2011, p. 195). Therefore, to test the practicality of the interview protocol and to anticipate any difficulties before the main study was conducted, pilot studies were conducted with three individuals. First, a former board member of an IOC was interviewed. This was to understand the dynamics of the energy industry, for context. It was also done to receive feedback on the structure, sensitivity and feasibility of the research questions from a macro perspective of the study’s context. Secondly, for the final two pilot studies, board members from a more representative sample, that is, within the study’s context, were interviewed, to achieve more specific feedback. A former deputy CEO, who was simultaneously a board member from one of the KPC’s subsidiaries, and an ex- board member from a second KPC subsidiary. Feedback was sought about the interview style of questioning, interviewer’s tone of voice, behavior, interaction, duration of interviews, sensitivity of questions with these interviewees and efficiency of the responses. Finally, feedback from the different respondents was consolidated, for consideration.

The following shortcomings were noticed. Firstly, the researcher realized that the interview questions were over-structured in terms of the rigidity of concepts in some questions asked. Consequently, interview questions were modified to be broad enough to encourage interviewees to narrate their perceptions, and for the researcher to generate an understanding of such concepts from these very perceptions. The main modification was to replace the term (information asymmetry) with the phrase (distorted information whether intentionally or unintentionally). Patton (1990) argues that it is important to allow interviewees to respond to questions using their own language. Thus, the researcher found that when she did not strictly impose her own meaning-making of interview concepts on participants during questioning,

their level of comfort in responding increased. This led participants to provide more robust and more detailed responses. Secondly, considering that interviews were conducted with members of the board from the Kuwaiti oil sector, some questions appeared to be politically sensitive, and had to be reworded. For example, the following questions were reworded and asked in interviews: To what degree are you as a Board Member independent from chairman, political parties the Ministry of Oil and parliament, in making, supporting or opposing strategic decisions? How would you say this has affected the efficacy of strategic decisions? The original question pertaining to this question was: How has the pressure exerted upon you (board members) of the KPC and subsidiaries, from parliament members and political groups hindered the efficacy of strategic decisions? Thirdly, the ordering of the questions was changed, making the more general questions take precedence, which allowed interviewees to be less prone to the sensitivity to the overall topic. This eased the process for the researcher to gradually move on to more provoking questions. For example, prior to asking questions which directly focused on agency problems within strategic decisions and projects (i.e. conflict of interest and information asymmetry), the researcher first asked the interviewees to describe the structures of the board in terms of composition and role duality, and to describe the steps of the undertaken to execute a strategic project, and how they perceived the prior to influence the latter.

This was the researcher's first experience of interviewing, and so the researcher wanted to have a sense of the impact of her interviewing style on the interviewees to assess whether she could fit the questions into the allotted time frame, and whether her audio recording equipment was functioning adequately. Hence, the researcher found that conducting a pilot study and modifying the interview protocol accordingly, contributed to the rigour and validity of the research. The researcher commenced data gathering in Kuwait City in April 2016.

It is noteworthy to mention that being of the female gender in a relatively conservative society that is Kuwait, the researcher took care over matters of dress and etiquette, taking cultural and religious mores into account. The researcher of course has a very good grasp of these mores, being herself Kuwaiti. The researcher adhered faithfully to the timing of scheduled meetings. Most interviews took place in the offices of the participants, while three took place in their residences.

### *Stage Two: In-depth Semi-Structured Interviews*

For the first set of 19 interviews, the interviewing activity lasted through the month of April 2016. The researcher then paused interview activity and took some time to run through the data and reflect on its connections to the research questions. This pause was also because of a lull in scheduled interviews. Following from these reflections and prior to commencing the second round of interviewing in September 2016, these lessons were learnt: 1) The order of questions was rearranged to take maximum advantage of the time available. The researcher here decided to ask the questions that she felt were the most important, because it transpired from the first round of interviews that many interviewees over-elaborated on several of the “not as important questions” as compared to the more significant ones; 2) Questions became much more focused. The written questions remained the same, however the wording of the oral questions was put in more laymen terms; and 3) The researcher felt the need to loosen up and become freer in her interactions with the respondents. As the social aspect of Kuwaiti culture plays a heavy role in it, the researcher found that interacting with interviewees in a much more casual manner increased their comfort level during an interview. Hence, social conversations took place pre and during interviews. Noteworthy, is the addition of further questions to the interview guide, to further explore themes that were thrown up by the first round of interviews

to illustrate, initial respondents' concerns about turnover on the boards resulted in an addition to the research question in the second round of interviewing to probe further in that respect.

In total, the researcher interviewed 19 board members in the first round of data collection. In the second round of data collection, a total of 11 interviews were conducted. The breakdown is as follows:

**Table 3.2: General Overview of the Study's Participants**

<b>Company Name</b>	<b>Position</b>	<b>Number of Participants in each Position</b>
<b>Company X</b>	BM	5
	Chairman	1
	Deputy Chairman	1
<b>Subsidiary A</b>	CEO	1
	Ex-BM	1
	BM	1
<b>Subsidiary B</b>	BM	3
	Ex-BM	1
<b>Subsidiary C</b>	CEO	1
	BM	5
<b>Subsidiary D</b>	BM	2
	Chairman	1
<b>Subsidiary E</b>	BM	4
	Chairman	1



<b>Subsidiary F</b>	BM	1
<b>Subsidiary G</b>	BM	1

Details of interview respondents can be found in Appendix A.

### **3.7.2 Conducting Interviews**

For the main study, the researcher interviewed 28 serving and ex- board members from the KPC and its subsidiaries. Additionally, 2 of the pilot study interviews were used as part of the main study, leading to a total of 30 interviews conducted. These interviews were semi-structured and designed to draw a profound picture of the perspectives of the earlier mentioned board members (Anyan, 2013; Eisenhardt & Graebner, 2007; Rubin & Rubin, 2011). The interview guide (Appendix B), ensured a level of consistency in respect to the responses from different participants to each question (Bryman & Bell, 2011).

Semi-structured interviews, in this study, represent a functional technique to examine issues in a comprehensive way, to determine how individuals assume and perceive a topic, and to find out why they hold certain views (Maxwell, 2004). Each semi-structured interview began with an explanation of the research objectives and consisted of six broad sections, aimed at capturing the antecedent issues of governance, the agency mediators, and the outcome, which is the impact of strategic decisions. This is explained in more detail, in the next paragraph.

In Table 3.3,

(1) Interview main concepts 1, 4 &5, concern the capturing antecedent variables relating to issues of board composition, board characteristics and board leadership structure. They represent broad probing about composition, characteristics and board leadership structure. These initially aimed to capture background information on the respondents, such as age, educational background, experience on boards, tenure, political affiliation and role in committees.

(2) Interview main concept 3, concerns the mediating agency factors of conflict of interest, and information asymmetry. They are questions that aim to capture conflict between directors, their views of their political masters (the executive and the parliament), and their views about asymmetries of information on the board.

(3) Interview main concept 2, in Table 3.3, concerns the outcome variable of impact on strategic decisions. They are questions aiming to show how antecedent issues of governance, captured affect strategy, through mediating agency problems.

(4) Interview main concept 6, in Table 3.3, aims to capture how the politicization of the antecedents (composition, characteristics and board leadership structure) affects the outcome of impact on strategic decisions.

**Table 3.3: Interview Guide Concepts**

<b>Interview Guide Main Concepts</b>	<b>Interview Guide Sub Concepts</b>	<b>The Perspective from which it was Used to Create Interview Questions</b>	<b>Associated/Supporting Literature</b>
<b>1. The role of Board of Directors</b>	Monitoring	What are the monitoring systems used by the board of directors to monitor top management and strategic decisions?	<ul style="list-style-type: none"> <li>– Armstrong, Ittner &amp; Larcker, 2012</li> <li>– Coulson-Thomas, 2009</li> <li>– Gavin &amp; Cameron, 2010</li> <li>– Petrovic, 2008</li> <li>– Shivdasani &amp; Yermack, 1999</li> </ul>
	Board Members Recruitment Process & Criteria	What is the recruitment process of board directors, and what is the criteria which this process entails?	<ul style="list-style-type: none"> <li>– Borch &amp; Huse, 1993</li> <li>– Cowen &amp; Marcell, 2011</li> <li>– Daily &amp; Dalton, 2004</li> <li>– Dulewicz, 1995</li> <li>– Jewson &amp; Mason, 1986</li> <li>– Johannisson &amp; Huse, 2000</li> <li>– Kile, Loscavio, &amp; Whaley, 1996</li> </ul>
<b>2. Strategic Decisions</b>	Classification of Strategic Decisions	How are strategic decisions classified, and is such classification optimal in terms of their efficacy?	<ul style="list-style-type: none"> <li>– Nutt, 1988</li> <li>– Nutt, 1998</li> <li>– Nutt, 2001</li> <li>– Nutt, 2014</li> </ul>
	Board Involvement in Strategic Decisions	To what extent are board directors involved in the strategic decision making process (of the KPC and its subsidiaries)?	<ul style="list-style-type: none"> <li>– Carpenter &amp; Westphal, 2001</li> </ul>
	Strategic Decision Process	What are the steps included in making strategic decisions; in order to determine how and where in these steps was efficacy impacted?	<ul style="list-style-type: none"> <li>– Dean &amp; Sharfman, 1996</li> <li>– Eisenhardt, 1989</li> <li>– Papadakis, 2006</li> </ul>
	Voting on Strategic Decisions	How do boards vote on strategic decisions? Are their voting systems	<ul style="list-style-type: none"> <li>– -Bonazzi &amp; Islam, 2006</li> </ul>

		efficient in terms of how they impact the efficacy of strategic decisions?	
<b>3. Agency Theory</b>	Information Asymmetry	What are the cases of information asymmetry, among board directors, which took place within strategic decisions and their associated projects?	<ul style="list-style-type: none"> <li>– Adams, 1994</li> <li>– Brennan, 1995</li> <li>– Burkart, Gromb, &amp; Danunzi, 1997</li> <li>– Cormier, Ledoux, Magnan, &amp; Aerts, 2010 2010</li> <li>– Eisenhardt, 1989</li> <li>– Fama&amp; Jensen, 1983</li> <li>– Hadar &amp; Fox, 2009</li> <li>– Jensen &amp;Meckling, 1976</li> <li>– Kanagaretnam, Lobo &amp; Whalen, 2007</li> <li>– McColgan, 2001</li> <li>– Mishra, Heide &amp; Cort, 1998</li> <li>– Saam, 2007</li> <li>– Sheifer &amp; Vishney, 1989</li> </ul>
	Incentive Scheme	What are the incentive schemes used to align the interests of board members (as representatives of ownership)? And how do these incentive schemes impact the efficacy of strategic decisions?	<ul style="list-style-type: none"> <li>– Jensen &amp;Meckling, 1976</li> <li>– Koufopoulos, 2008</li> <li>– Lazarides, Drimpetas, &amp; Koufopoulos, 2008</li> <li>– Main, Bruce, &amp; Buck, 1996</li> <li>– Ronen, Kashi, &amp; Balachandran, 1995</li> <li>– Yang, 1991</li> </ul>
	Conflict of Interest	What are the conflicts of interest among board directors, which took place within strategic decisions and their associated projects?	<ul style="list-style-type: none"> <li>– Brennan, 1994</li> <li>– Burkart, Gromb, &amp; Danunzi, 1997</li> <li>– Boatright, 1992</li> <li>– Bowie, 1992</li> <li>– Baysinger &amp; Hoskisson, 1990</li> </ul>

			<ul style="list-style-type: none"> <li>- Croteau, Pietra, Giudici, &amp; Melis, 2017</li> <li>- Corten, Steijvers, Lybeat, 2017</li> <li>- Eisenhardt, 1989</li> <li>- Fama&amp; Jensen, 1983</li> <li>- Fama, 1980</li> <li>- Hill &amp; Snell, 1988</li> <li>- Jensen &amp;Meckling, 1976</li> <li>- Krause, 2017</li> <li>- Renders &amp; Gaeremynck, 2012</li> <li>- Rubino, Tenuta, &amp; Cambrea, 2017</li> <li>- Sheifer &amp; Vishney, 1989</li> <li>- Steijvers &amp; Lybaert, 2017</li> <li>- Su, Xu, &amp; Phan, 2008</li> </ul>
<b>4. Leadership Structure of the Board</b>	Role Duality	What are the cases of role duality which exist on the boards' structures, and what impact do these cases have on the efficacy of strategic decisions and projects?	<ul style="list-style-type: none"> <li>- Balia et al., 1996</li> <li>- Carter &amp; Lorsch, 2004</li> <li>-Dalton &amp; Daily, 1998</li> <li>-Guo &amp; Li, 2011</li> <li>- Ferris, Jagannathan, &amp; Pritchard, 2003</li> <li>-Mintzberg &amp; Walters, 1990</li> <li>- Sarkar &amp; Sarkar, 2009</li> <li>- Duru, lyengar, Zampelli, 2016</li> </ul>
<b>5.Board Composition and Characteristics</b>	Board Independence	How do board members define board independence, and how does 'board independence' impact the efficacy of strategic decisions?	<ul style="list-style-type: none"> <li>- Bhagat &amp; Black, 2001</li> <li>- Bohern &amp;Storm, 2010</li> <li>- Carter &amp; Lorsch, 2004</li> <li>- Clark, 2007</li> <li>- Fama &amp; Jensen, 1983</li> <li>- Jensen, 1993</li> </ul>

			– Rosenstein & Wyatt, 1990
	Turnover	What is the turnover rate of the board, and how does this influence the efficacy of strategic decisions?	– Asthana & Balsam, 2007 – Bugeja, Rosa, & Lee, 2009 – Camerlo & Perez-Linan, 2015 – Goyal & Park, 2002 – Weisbach, 1988
	Demographics	What are the demographics of board members, and how are these demographics perceived to influence the efficacy of strategic decisions?	– Anderson & Reeb, 2004 – Balta, Woods & Dickson, 2010 – Ferreira, 2010 – Johnson & Schnatterly – Kiel & Nicholson, 2003 – Kakabadse & Kakabadse, 2007 – Malette & Flower, 1992
	Experience	What are the past experiences which board members possess? How do their experiences influence the efficacy of strategic decisions?	– Anderson, 2004 – Chan Liu & Sun, 2013 – Lane, Astrachan, & – Keyt, 2006 – Liu & Sun, 2010 – Vafeas, 2003
<b>6. Political Influence</b>	Political affiliations and connections of board directors.	Are board members politically connected? How does their political affiliation impact the efficacy of their strategic decisions?	– Agrawal & Knoeber, 2001 – Hillman, 2005 – Fan, Wong & Zhang, 2007

Interview appointments were booked with enough notice to allow the participant ease of scheduling. Before the interview, the researcher always confirmed the interviewee's preferred length of interview duration, and stuck to these times unless the participant willingly went beyond them. Interviews commenced with the researcher presenting the interview participant with a consent form. Details such as the nature of confidentiality and ethicality of the research were communicated to the interviewee. The participants were requested to read and sign the consent forms they were presented with, to indicate their willingness to participate in the study, and their permission for audio recording (See Appendix C). An overview of the broad interview aims was communicated to the interview participants, as encapsulated in the information sheet, which was sent via email prior to the interview being conducted. The purpose of the information sheet was to make interviewees aware that they have the right to know they are being researched, the right of withdrawal from the study at any time they please, and to inform them about the study's nature (Silverman, 2015) (See Appendix D). In addition to recording, notes were taken during the interview session to enable the researcher to keep track of critical points discussed, and to keep a note of points that needed further explanation using probing questions.

The interview questions were divided into categories and these categories were prioritized according to high importance, medium importance and low importance. The qualitative interview questions focused on experience, opinion, feelings and knowledge from interviewees.

The interview participants of this single case study hold extremely sensitive positions as board members, CEOs, chairmen and Oil Minister, in Kuwait's Government oil sector. Consequently, this study adopted a face-to-face semi-structured interview technique which enabled the researcher to solicit such sensitive information (Lavrakas, 2008). This technique

is, furthermore, an effective tool for maximizing the quality of data and minimizing chances of non-response when interviewing (Lavrakas, 2008).

The length of interviews played a significant role in terms of supporting rich interview data and supporting sensitive and confidential information. An average interview lasted 1.5 hours. It is noteworthy to mention that approximately half of the study's population were interviewed, including critical participants within high positions in the oil industry. Hence, the researcher interviews can be seen to a fair representation of the population. Additionally, the researcher compared interview responses to show consistency among the data.

### *Probes*

Probes were utilized by the researcher, following Saunders et al., (2007, p. 315) who advise usage where “you want your interviewees to explain, or build on, their responses”. This enabled the researcher to expand on responses which need clarification (Rubin & Rubin, 2012) such as identifying the factors which influence the efficacy of strategic decisions, and their associated projects. Probing allowed the researcher to provide a deep and comprehensive explanation of how the composition of the mother company's (the KPC) board and its leadership structure, impact the efficiency and extent of the success of its strategic decisions and the associated projects of the KPC and its eight subsidiaries. It also helped reveal the relationship between the KPC and its subsidiaries. The type of interview questions asked were open-ended, followed with various probes. This allowed the interviewer to implicitly redirect the interviewees to provide nuanced responses. Thus, interview questions were carefully designed to refrain from triggering yes or no responses and, as such, offered interviewees the opportunity to express their thoughts with more freedom and flexibility.



### *Interviewing Challenges*

Since participants hold highly sensitive positions (board members, CEOs chairmen and Oil Minister) in such a strategic sector, the researcher faced several hurdles. The process of interviewing 30 participants consisted of the following challenges which the researcher has recorded in her research diary, and which are further discussed in Chapter 6.

1. The office manager of the KPC's CEO was supposed to send out a letter that informed board members that they have the permission to provide me with interviews. The wrong letter was sent out by mistake which caused confusion, and delayed interviews.
2. A fatality took place in the family, and the researcher felt it was not appropriate to ask the relative(s) to set up interview appointments for her. This caused a delay.
3. Some interviewees declined to participate at the last minute.
4. Since it was the beginning of the financial year in Kuwait (September 2016), many board members were out of the country.
5. In two instances the researcher was given internal documents that were immediately repossessed.

Transcription of interviews took place over two rounds. The first set of interviews were transcribed starting in October 2015 and ending in January 2015. The second round of the transcription process took place from May 2016 and ended in August 2016. The reason for the lengthy duration was that 90 percent of the transcriptions had to be personally translated and transcribed by the researcher from the Arabic language, as most of the participants preferred to communicate in their mother tongue, Arabic. Additionally, initial analytic notes were taken throughout.

### **3.8 Data Management and Security**

The researcher ensured that transcripts were securely backed up in two separate hard drives, and where more than one copy was created, the researcher used encrypted files to store them. Interview guides, both electronic and physical, were also securely stored. This management and security policy was generally extended to all data gathered during the study, including signed consent forms. Also, copies of notes made during interviews and during transcription were secured (Cassel & Symon, 2012).

Ethical Approval was obtained from the relevant ethics committee of the University of Reading, prior to the commencement of the study. The researcher took care to ensure that such concerns as confidentiality, were met by anonymising the identities of interviewees. As mentioned earlier, such assurances of anonymity were included in the information sheet, with secured consent expressed by the signed consent form (Miles et al., 2014).

### **3.9 Data Analysis**

For this study, thematic analysis was utilized to analyse the responses of the open-ended questions generated from 30 in-depth semi-structured interviews with board members, CEOs, DCEOs, an Oil Minister and chairmen within the organization of the KPC and its subsidiaries. Broadly, this process included critical and repetitive reading of the interview transcripts to identify patterns /themes within the data (Bowen, 2009). It also entailed the preparation and organization of the data for analysis, and then the reduction of the organized data into themes. This was achieved by coding the data, condensing the resulting codes, and presenting the data using table, figures and discussion (Creswell, 2013). This is in keeping with the usage suggested by Braune and Clarke (2006) as an analytical technique for “identifying, analyzing, and reporting patterns (themes) within the data” (2006, p.79). Additionally, Boyatzis (1998) explains that thematic analysis allows practitioners, scholars and observers to use information

from multiple sources in a systematic way, which in return strengthens the accuracy of the researcher's interpretations and perceptions about people, situations, organizations and events.

Additionally, thematic analysis was chosen for its flexibility in that it could be applied to varying types of data. Inherently, it is not weighed down by prescriptions and procedures such as the need to be applicable to grounded theory and interpretive phenomenological analysis, for example. Moreover, the principles behind this analytic technique are relatively assessable to a new qualitative researcher (Cassel & Symon, 2012). Template analysis was particularly suitable for this study because of its usefulness in exploring the perspectives of different groups within an organizational context which, in this study, refer to relationships and perceptions intra and inter boards of the KPC and its subsidiaries.

Nevertheless, the flexibility of the technique meant that the researcher had to contend with a lack of specific procedure. In other words, the researcher had to devise her own procedure considering the research questions and the findings obtained in the interview. Accordingly, the researcher first identified two overarching themes: board composition, board characteristics and board leadership structure. A theme is described as a word or phrase which symbolizes or represents the main concepts within the data, in relevance to answering the study's research questions (Braun & Clark, 2006; Riger & Sigurvunsdottir, 2016;). Although there was an element of predefinition, as can be seen in the crafting of initial interview questions, the subsequent subthemes and codes under each overarching theme 'emerged' from the data (Charmaz, 2014).

Three steps were followed by the researcher in her analysis, in keeping with the Miles and Huberman (1994) approach to thematic data analysis. This structured, systematic and widely utilized approach (Saunders et al., 2009), includes the following three steps: data reduction, data display, and drawing and verifying conclusions. These three steps, although

presented separately, took place concurrently and are in fact intertwined. They are explained in more detail in Sections 3.9.1, 3.9.2, and 3.9.3.

### **3.9.1 Step 1: Data Condensation/Reduction**

In reducing or condensing the data, that is the process of selecting, focusing, simplifying, abstracting and transforming the data collected from transcriptions, the researcher adhered to these procedures:

The researcher applied data- driven holistic codes. Table 3.4 shows these codes, and the descriptions used to justify their use. Some of the holistic codes were informed by the conceptual framework presented in Chapter 2, while some were extrapolated from the data. The researcher assigned a list of initial holistic codes which were partly derived from the literature as shown in Table 3.4. These were used to label discrete chunks of data according to the researcher's interpretation, with the study aim in mind. Underpinning the interpretation was always the question: 'What impact does board composition, board characteristics and board leadership structure have on strategic decisions in the KPC and its subsidiaries?' For example, certain codes such as 'Receptivity to Parliamentary Pressures' and 'The Impact of Social Customs on the Organization's Culture', were newly derived themes from the transcript data. The link between Table 3.3, interview guide concepts derived from literature and Table 3.4, holistic codes, portrays the comparisons between themes/codes derived from literature and themes which were later derived from the coding of interviewee responses/data. This connection between the research questions, interview guide, holistic codes and final themes are shown in Table 3.6, and further discussed in 3.9.4.

The researcher at first attempted to use electronic software for arranging and categorizing the data. However, while the categorization was indeed significant, she found that assigning codes on hard copy printouts allowed her to manipulate the data on paper, giving her

a sense of control ( Basit, 2003; Saldana, 2015;). Manual coding also gave a feeling of intimacy and immersion with the data (Saldana, 2009).

To guarantee reliability and consistency of these holistic codes throughout the analysis process, codes were grouped into categories, and assigned preliminary descriptions to serve as an initial guide towards the more detailed succeeding coding methods. This resulted in the holistic codes as depicted in Table 3.4:

**Table 3.4: Holistic Codes**

<b>Holistic codes</b>	<b>Description</b>	<b>Literature</b>
<b>Monitoring</b>	<p>Refers to the monitoring schemes that boards use to monitor management and strategic decisions.</p> <p>-Refers to the internal and external factors which impact effectiveness of these schemes.</p>	<ul style="list-style-type: none"> <li>- Armstrong, Ittner &amp; Larcker 2012</li> <li>- Coulson-Thomas, 2009</li> <li>- Gavin &amp; Cameron, 2010</li> <li>- Petrovic, 2008</li> <li>- Shivdasani &amp; Yermack, 1999</li> </ul>
<b>Recruitment Process/Criteria</b>	<p>The process by which board members are selected and the extent of its effectiveness in terms of its impact on the efficacy of strategic projects.</p>	<ul style="list-style-type: none"> <li>- Borch &amp; Huse, 1993</li> <li>- Cowen &amp; Marcell, 2011</li> <li>- Daily &amp; Dalton, 2004</li> <li>- Dulewicz, 1995</li> <li>- Jewson &amp; Mason, 1986</li> <li>- Johansson &amp; Huse, 2000</li> <li>- Kile, Loscavio &amp; Whaley, 1996</li> </ul>
<b>Board Auditing</b>	<p>The extent to which board audits are effective in monitoring management and strategic projects of the organization.</p> <p>-Refers to the factors which hinder effective board auditing of management and strategic decisions.</p>	<ul style="list-style-type: none"> <li>- Abbott, Park &amp; Parker, 2000</li> <li>- Eulerich &amp; Henseler, 2017</li> <li>- Klein, 2002</li> <li>- Raghunandan, Rama, &amp; Read, 2001</li> <li>- Ramamoorti, Siegfried &amp; White, 2017</li> </ul>
<b>Authority on the Board</b>	<p>The extent to which board members understand and accept the limit of their authority when it comes to their involvement in the decisions concerning strategic decisions, and how the lack of accepting these limits hinders the efficacy of strategic projects.</p>	<ul style="list-style-type: none"> <li>- Aguilera &amp; Vadera, 2007</li> <li>- Bainridge, 2008</li> <li>- Demb &amp; Neubauer, 1992</li> </ul>
<b>The impact of social customs on the organization's culture (i.e. Urf)</b>	<p>Refers to the negative and positive influences of organization customs inherited from the country's</p>	<ul style="list-style-type: none"> <li>- Brouthers &amp; Brouthers, 2001</li> <li>- Denison &amp; Mishra, 1995</li> <li>- Elbanna &amp; Child, 2007</li> </ul>

	<p>culture and traditions, on board members' decisions.</p> <p>-Refers to the content of board agendas and the extent the content can be influenced by social customs of the organization.</p> <p>-Refers to the extent to which cultural customs impact the selection of qualified board members, and how this trickles down to ultimately affecting the efficacy of strategic decisions.</p>	<ul style="list-style-type: none"> <li>- Hofstede, 1984</li> <li>- Zheng, Yang, &amp; McLean, 2010</li> </ul>
<b>Receptivity to External Forces</b>	<p>The extent to which board members, CEOs on the boards, and Chairmen are influenced by external forces when contributing to strategic decisions, and to what extent these influences impact the optimality of the accompanying strategic projects.</p>	<ul style="list-style-type: none"> <li>- Ringov &amp; Zollo, 2007</li> </ul>
<b>Demographics of Board Members</b>	<p>The extent to and means by which the KPC and subsidiaries' board members' demographics impact the overall composition of boards, which in turn impacts the efficacy of strategic decisions, and ultimately the optimality of strategic projects.</p> <p>-Refers to the characteristics which have the most influence as perceived by interviewees.</p>	<ul style="list-style-type: none"> <li>- Anderson &amp; Reeb, 2004</li> <li>- Ferreira, 2010</li> <li>- Johnson &amp; Schnatterly &amp; Hill, 2013</li> <li>- Kiel &amp; Nicholson, 2003</li> <li>- Kakabadse &amp; Kakabadse, 2007</li> <li>- Malette &amp; Flower, 1992</li> </ul>
<b>Classification of Decisions</b>	<p>Refers to how strategic decisions are classified, and how such classifications influence the efficacy of strategic decisions and their accompanying projects.</p>	<ul style="list-style-type: none"> <li>- Nutt, 1988</li> <li>- Nutt, 1998</li> <li>- Nutt, 2001</li> <li>- Nutt, 2014</li> </ul>
<b>Role of Committees on Boards</b>	<p>Refers to the structures, and role of various committees on the KPC board, and the impact these factors have on the efficacy of strategic decisions and their accompanying projects.</p>	<ul style="list-style-type: none"> <li>- Conyon &amp; Peck, 1998</li> <li>- Cotter &amp; Silvester, 2003</li> <li>- Daily, Johnson &amp; Ellestrand, 1998</li> <li>- Greenbury, 1995</li> <li>- Klein, 1998</li> </ul>

		<ul style="list-style-type: none"> <li>- Main &amp; Johnston, 1993</li> <li>- Ruigrok, Peck, Tacheva &amp; Greve, 2006</li> </ul>
<b>Information Asymmetry</b>	<p>The extent of clear vertical and horizontal communication among Board Members, CEOs and Deputy CEOs.</p> <p>-Refers to the instances when asymmetrical information among board members and CEOs has been passed intentionally and unintentionally, and the extent to which strategic decisions' efficacy was hindered as a result of such asymmetrical information.</p>	<ul style="list-style-type: none"> <li>- Adams, 1994</li> <li>- Brennan, 1994</li> <li>- Burkart, Gromb &amp; Danunzi, 1997</li> <li>- Cormier, Ledoux, Magnan, &amp; Aerts, 2010</li> <li>- Eisenhardt, 1989</li> <li>- Fama &amp; Jensen, 1983</li> <li>- Hadar &amp; Fox, 2009</li> <li>- Jensen &amp; Meckling, 1976</li> <li>- Kanagaretnam, Lobo &amp; Whalen, 2007</li> <li>- McColgan, 2001</li> <li>- Mishra, Heide &amp; Cort, 1998</li> <li>- Saam, 2007</li> <li>- Sheifer &amp; Vishney, 1989</li> </ul>
<b>Effect of Chairman Personality on Strategic Decisions</b>	<p>Refers to what and how the different effects from the different KPC Chairmen personalities trickles down through their strategic decision involvement and results in various impacts which are reflected by the efficacy of strategic projects.</p>	<ul style="list-style-type: none"> <li>- Chatterjee &amp; Hambrick, 2007</li> <li>- Resick &amp; Whitman</li> </ul>
<b>Receptivity to Parliamentary Pressures</b>	<p>The extent to which the KPC board allows parliament to influence the intent and direction of their decisions.</p>	<ul style="list-style-type: none"> <li>- Al-Sabah, 2017</li> <li>- Alnajjar, 2000</li> <li>- Gause, Gause, III &amp; Gause 1994</li> <li>- Ghabra, 2014</li> <li>- Herb, 2014</li> <li>- Kinninmont, 2012</li> <li>- Segal, 2012</li> <li>- Al-Sa'di &amp; Moench, 1988</li> </ul>
<b>Efficiency and Importance of Board Structure</b>	<p>The extent to which the board structures of the oil sector are perceived as efficient, and why. The</p>	<ul style="list-style-type: none"> <li>- Coles, Daniel &amp; Naveen, 2008</li> </ul>



	importance the structure of the boards in the Kuwaiti oil sector in terms of the wellbeing of the Kuwaiti economy. The wellbeing of the Kuwaiti oil sector is highly dependent on its strategic projects.	<ul style="list-style-type: none"> <li>- John &amp; Senbet, 1998</li> <li>- Linck, Netter &amp; Yang, 2008</li> </ul>
<b>Impact of dual roles of board members within the oil sector on the efficacy on strategic decisions</b>	Refers to any board member who holds multiple leadership positions in the oil sector and the extent of the effect of such a structure on the optimality of strategic decisions and their associated projects.	<ul style="list-style-type: none"> <li>- Balia et al., 1996</li> <li>- Carter &amp; Lorsch, 2004</li> <li>- Dalton &amp; Daily, 1998</li> <li>- Duru, Iyengar &amp; Zampelli, 2016</li> <li>- Ferris, Jagannathan &amp; Pritchard, 2003</li> <li>- Guo &amp; Li, 2011</li> <li>- Mintzberg &amp; Walters, 1990</li> <li>- Sarkar &amp; Sarkar, 2009</li> <li>- Steven, 2012; 2014</li> </ul>
<b>Impact of the importance of experience and length of experience on the board</b>	The extent to which the previous experience, or lack of experience, and length of experience of board members impacts the efficacy of strategic decisions and the accompanying strategic projects.	<ul style="list-style-type: none"> <li>- Anderson &amp; Reeb 2004</li> <li>- Chan Liu &amp; Sun, 2013</li> <li>- Lane, Astrachan &amp; Keyt, 2006</li> <li>- Liu &amp; Sun, 2010</li> <li>- Vafeas, 2003</li> </ul>
<b>Effect of Different Personalities</b>	Refers to what and how the opposing effects from the different KPC chairmen personalities trickles down through their strategic decision involvement, and results in various impacts which are reflected by the efficacy of strategic projects.	-Xu, Yu & Shi, 2011
<b>Alternative motives</b>	Refers to the extent to which and the means by which the contradicting intentions between board members, CEOs, and Chairmen of the oil sector board effect the efficacy of strategic projects.	<ul style="list-style-type: none"> <li>- Beaty &amp; Zajac, 1990</li> <li>- Fama &amp; Jensen, 1983</li> <li>- Fama, 1980</li> <li>- Hermalin &amp; Weisbach, 1991</li> <li>- Kosnick, 1990</li> <li>- Yermack, 2004</li> <li>- Inglis, 1994</li> </ul>

		<ul style="list-style-type: none"> <li>– Stout &amp; Corp, 2003</li> </ul>
<b>External impacts of Strategic Decision Efficacy</b>	The extent to which inefficient strategic decisions affect individuals in local society, such as living standards.	<ul style="list-style-type: none"> <li>– Armstrong, 1982</li> <li>– Rosenhead, Elton, &amp; Gupta, 1972</li> <li>– Sharma &amp; Tawler, 2005</li> <li>– Stevens, 2012</li> </ul>
<b>Turnover</b>	<p>The rate at which the composition of the KPC and subsidiary boards changes and how this impacts efficacy of strategic decisions and their associated projects.</p> <p>-Refers to the frequency with which the chairman of the KPC board/oil minister changes, and the impacts this has on the efficacy of strategic decisions.</p>	<ul style="list-style-type: none"> <li>– Asthana &amp; Balsam, 2007</li> <li>– Camerlo &amp; Perez-Linan, 2015</li> </ul>
<b>Recruitment Process/Criteria</b>	The process by which board members are selected and the extent of its efficacy in terms of its impact on the optimality of strategic projects.	<ul style="list-style-type: none"> <li>– Borch &amp; Huse, 1993</li> <li>– Cowen &amp; Marcell, 2011</li> <li>– Dulewicz, 1995</li> </ul> <p>Jewson &amp; Mason, 1986</p>
<b>Incentive Scheme and Remuneration</b>	Refers to the incentive scheme used in the organization in an attempt to motivate board members to act in the best interests of the company.	<ul style="list-style-type: none"> <li>– Jensen &amp; Meckling, 1976</li> <li>– Koufopoulos, 2008</li> <li>– Lazarides, Drimpetas &amp; Koufopoulos, 2008</li> <li>– Main, Bruce &amp; Buck, 1996</li> <li>– Ronen, Kashi, &amp; Balachandran, 1995</li> <li>– Nahar Abdullah, 2006</li> </ul>
<b>Board Independence</b>	The extent to which the board is independent in making decisions related to strategic projects. The extent to which individual board members are independent in making decisions related to strategic projects. The extent to which these cases of independence impact the efficacy of strategic	<ul style="list-style-type: none"> <li>– Bhagat &amp; Black, 2001</li> <li>– Bohern &amp; Storm, 2010</li> <li>– Carter &amp; Lorsch, 2004</li> <li>– Clark, 2007</li> <li>– Fama &amp; Jensen, 1983</li> <li>– Jensen, 1993</li> </ul>

	decisions, and the optimality of their associated strategic projects.	– Rosenstein & Wyatt, 1990
<b>Informal Conversation</b>	The extent to which informal conversations are involved in the making of strategic decisions, and how this reflects upon optimality of strategic projects.	– Kraut, 1990 – Stevens, 2012 – Stevens 2008
<b>Lobbying</b>	The extent to which lobbying is involved in the making of strategic decisions, and how this is reflected upon the optimality of strategic projects.	– Borch & Huse, 1993
<b>Utility Maximization Behaviour of Board Members</b>	The extent to which the feasibility of the market studies of strategic projects are indirectly or informally opposed by any board members for the purpose of their hidden intentions.	– Eisenhardt, 1989
<b>Political Party Influence</b>	The extent to which the political party which members belong to, pressure them into making a decision which is not for the best interests of the company, but for the best interests of the party as a priority.	– Ringov & Zollo, 2007 – Agrawal & Knoeber, 2001
<b>Conflict of Interest</b>	<p>The extent to which a conflict of interest between board members on the same board trickles down in impacting the efficacy of their strategic decisions.</p> <p>-Refers to a conflict of interest between the chairman and the CEO of the KPC.</p> <p>-Refers to board members who secretly hold undisclosed conflicting positions outside the oil sector, and the extent to which this situation impacts the priority of acting in the best interest of either position. The extent to which this impacts the optimality of strategic projects.</p>	– Brennan, 1994 – Burkart, Gromb & Danunzi, 1997 – Boatright, 1992 – Bowie, 1992 – Baysinger & Hoskisson, 1990 – Corateau, Pietra, Giudici & Melis, 2017 – Corten, Steijvers & Lybeat, 2017 – Eisenhardt, 1989 – Fama & Jensen, 1983 – Fama, 1980 – Jensen & Meckling, 1976 – Krause, 2017 – Renders & Gaeremynck, 2012 – Rubino, Tenuta & Cambrea, 2017 – Sheifer & Vishney, 1989

		<ul style="list-style-type: none"> <li>- Corten, Steijvers &amp; Lybaert, 2017</li> <li>- Su, Xu, &amp; Phan, 2008</li> </ul>
<b>The impact of Board Size on recruitment process</b>	<p>The impact of the size of the board as compared to the impact of the quality of individual board members.</p> <p>-Refers to the impact of qualified board members on strategic decisions efficacy as opposed to having a larger board with unqualified board members, and the effect that has on strategic decision efficacy.</p> <p>-Refers to the various effects a board's size has had on decision-making efficacy.</p>	<ul style="list-style-type: none"> <li>- Chaganti &amp; Mahajan, 1985</li> <li>- Boone, Field, Karpoff, Raheja, 2007</li> </ul>
<b>Alignment</b>	<p>Refers to the necessary cases of alignment in the oil sector for the purpose of attempting to achieve strategic project efficacy, such as</p> <ul style="list-style-type: none"> <li>-strategic projects alignment</li> <li>-the KPC and subsidiaries alignment.</li> <li>-Parliament and oil sector alignment.</li> </ul>	-Jaskiwewicz & Klein, 2007
<b>Advantages and Disadvantages of Diwanias</b>	<p>Diwanias are an integral part of men's social lives in the Kuwaiti culture. They are sometimes referred to as mini-parliaments. They are a hub for informal discussion, especially of the political type. This code refers to how these informal discussions influence the efficacy of strategic decisions.</p>	<ul style="list-style-type: none"> <li>- Al-Nasser, 2001</li> <li>- Chay, 2016</li> <li>- Farah, 1979</li> <li>- El-Kebbi, 2013</li> <li>- Segal, 2012</li> </ul>
<b>Nepotism</b>	<p>The extent to which nepotism interferes with the boards' composition, characteristics and leadership structure, and how that effect trickles down to influence the efficacy of the strategic decisions and projects.</p>	<ul style="list-style-type: none"> <li>- Assisi, 2007</li> <li>- Alomar, 2015</li> <li>- Longva, 2006</li> <li>- Meles, 2007</li> <li>- Marktanner &amp; Wislon, 2016</li> </ul>

		<ul style="list-style-type: none"> <li>- Pistrui &amp; Sreih, 2010</li> <li>- Stevens, 2012</li> <li>- Stevens, 2008</li> </ul>
<b>Voting</b>	The extent to which and means by which the boards' voting systems impact on the efficacy of strategic decisions project.	<ul style="list-style-type: none"> <li>- Stevens, 2012</li> <li>- Stevens, 2008</li> </ul>

In summary, descriptive codes, which summarize the main idea of various passages from interview transcripts (Saldana, 2015), were adopted to show data sets according to the holistic codes initially created. In Vivo codes derived directly from interview responses were also used to label sets of data. An example is the code of 'alignment'. Value codes were used to signify cultural values (Saldana, 2015) stated by participants, and were based on the researcher's interpretations. Two examples of this are 'Wasta' and 'Urf'. Finally, simultaneous codes were used where the researcher assigned multiple codes to the same datum (Saldana, 2015). The researcher engaged in second level coding (Miles & Huberman, 2014), which involved the use of pattern codes, or explanatory codes, to bring together the chunks of data labelled under the first cycle of coding into more "parsimonious units of analysis" (Saldana, 2015, p. 86).

Codes generated under the first cycle were reconfigured and re-categorized repeatedly, until the most meaningful pattern codes, themes and sub-themes were developed with relevance to answering the research questions. These final themes and subthemes were grouped into the following two overarching themes: Board Composition and Board Characteristics, and Board Leadership Structure.

### *Jottings*

The researcher depended to a great extent during her data collection and coding process, on jottings. Miles, Huberman & Saldana (2014) explain that jottings serve as a tool to record a researcher's reflection, perceptions and commentary while performing the study's fieldwork as well as analysis process. Jottings strengthened the coding process by enabling the researcher to focus further on pinpointed data sets which deserved "analytic attention" (Miles et al., 2014, p. 94).

### **3.9.2 Data Display**

In displaying the data collected for this study the researcher primarily utilized text. The researcher's interpretations of themes and supporting evidence from transcripts, are presented in the next chapter in the form of textual narrative (Miles, Huberman & Saldana, 2014; Patton, 2002; Yin, 2011;). Additionally, the researcher utilized a tabular form of display. For example, Table.3.5.

In terms of the analytic chapter four, the researcher decided to present data and findings in the following manner:

- (i) Each overarching theme (Board Composition, Board Characteristics and Board Leadership Structure) as deduced from prior literature and data was discussed in-depth, together with subthemes identified in the data.
- (ii) The perceptions of the participants about the effect of these identified subthemes (for example tenure and experience) on the efficacy of strategic decisions were then presented.
- (iii) For both (i) and (ii) above, supporting quotations are drawn from the interview transcripts. This is in keeping with the research question: How are Board Composition, Board Characteristics and Board Leadership Structure perceived to impact the efficacy of strategic decisions?

### **3.9.3 Drawing and Verifying Conclusions**

To provide a recounting of the procedure followed in drawing and verifying conclusions, it is necessary to explain in more detail the steps taken in transitioning from first to second level coding.

### *Transitioning between First and Second Level Coding*

The researcher critically examined the data line-by-line to determine which sentences from each interviewee are consistent with the study's aims and research questions (Huberman & Miles; Miles & Huberman, 1994). Once all relevant data was highlighted, they were brought apart, reconfigured, categorized and finally labelled using first level codes. This first level coding process took place using a new Microsoft Word document every time codes were reconfigured or reorganized. In the process, various font colours were used to show what codes definitely changed or needed to be changed, what codes the researcher was considering to group and rename, which codes served as sub codes to other codes, and which codes needed to be completely discarded. The process was undertaken until final first cycle codes were achieved. An Excel sheet with these codes or themes supported by quotations was created. At this point, the researcher reread the transcripts again to account for missing information that might not have emerged in the developed first level codes (i.e. themes).

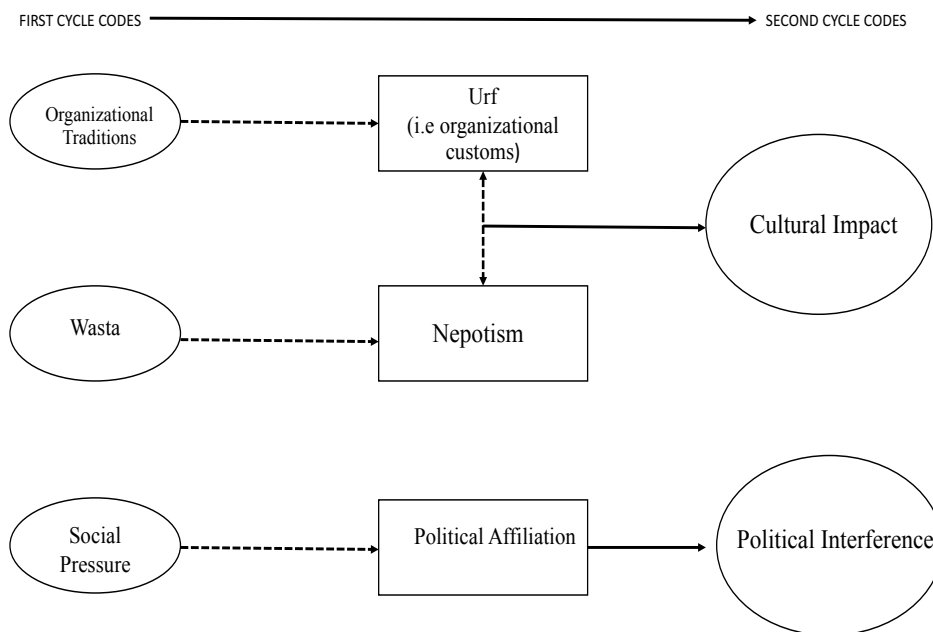
In preparing to transition to second level themes, validity was of significant concern (Huberman & Miles; Miles & Huberman, 1994). To demonstrate rigour in the analytical process, the researcher asked two external reviewers to validate the themes developed by the researcher, against the whole of the transcription text (Hosmer, 2008). The reviewers were a professor in organizational behaviour, and a lecturer in corporate governance (See Table 3.7).

After achieving validation of the first level codes, pattern analysis was adopted as the second level coding method. Here, the researcher searched for patterns across coded first level data segments. This involved: the notation of patterns and relevant statements which may be similar to or may contradict initial themes; grouping and categorizing information that logically comes together; identifying links between categories where it develops meaning and is consistent with the study's objectives; and finally, building conceptual coherence and consistency in order to explore the validity of the findings to see if they fit the theoretical



framework of the study (Miles & Huberman, 1994). The second cycle coding used Excel documents where first level codes were grouped and regrouped into categories. Every time a new second level category was assigned to a newly established group of first level coded data, was disregarded, or was merged, the researcher created a table in Excel to keep a record of the revisions (See Figure 3.2).

**Figure 3.2: First Level to Second Level Coding**



Source: Author Illustration

In summary, the coding process began with the researcher deriving interview concepts from the literature (See Table 3.3). Next, once interviews were transcribed, holistic codes were assigned to interview excerpts where new themes emerged from the data (See Table 3.4). Finally, the last step entailed first and second level coding. Within this process, the researcher started off with 60 first level codes, and ended with 10 final level themes with their associated sub- themes, as contradictory and identical data was clarified. Thus, the validation process

which took place after the second level themes were created, consisted of outside reviewers evaluating these second level themes to demonstrate and confirm the details of textual excerpts. Once consensus was achieved between the researcher and external coders on the final 10 themes, thematic analysis was applied. These final themes were later classified under two overarching themes or theme clusters (see Table 3.5). The thematic analysis conducted also reflected lateral relationships across the theme clusters in the analysis. Hence, 2 out of the 10 themes have been represented as integrative themes in the immediate upcoming analysis chapter: Cultural Impact and Political Affiliation. This is because their effect on the other governance issues of composition, characteristics and leadership structure is pervasive. Indeed, the effect of these integrative themes are therefore implied in the other themes, and are also presented in their own right. Thus, the study's data was condensed into two overarching themes, which entailed 10 major themes.

**Table 3.5: Final Themes**

<b>Over-arching Themes</b>	<b>Final Themes</b>	<b>Description</b>	<b>Associated/Supporting Literature</b>
<b>Board Composition and Characteristics</b>			–
	Tenure/ Experience	<b>The impact of tenure and experience on the efficacy of strategic decisions:</b> The extent to which the type of previous experience and length of experience of members on the boards of the KPC and its subsidiaries influences the efficacy of their strategic decisions.	<ul style="list-style-type: none"> <li>– Anderson, Mansi &amp; Reeb, 2004</li> <li>– Bear, Rahman &amp; Post, 2010</li> <li>– Carpenter &amp; Westphal, 2001</li> <li>– Chan Liu &amp; Sun, 2013</li> <li>– Daily &amp; Dalton, 1993</li> <li>– Huang &amp; Hillary, 2017</li> <li>– Walters, Kroll &amp; Wright, 2008</li> <li>– Kor &amp; Sundaramurthy, 2009, 2006</li> <li>– Lane, Astrachan &amp; Keyt,</li> <li>– Liu &amp; Sun, 2010</li> <li>– Vafeas, 2003</li> </ul>
	Altruism/ Patriotism	<b>The impact of altruism/patriotism on the efficacy of strategic decisions:</b> The extent to which board members prioritize the well-being of the company over their own personal interest; and the factors that influence this extent. The extent to which board members prioritize “love for one’s country” over personal benefits.	<ul style="list-style-type: none"> <li>– Aguilera &amp; Vadera, 2007</li> <li>– Gomez-Mjia, &amp; Kintana, 2003</li> <li>– Inglis, 1994</li> <li>– Jensen, 1994</li> <li>– Schulze &amp; Lubatkin, 2002</li> <li>– Stout, 2003</li> <li>– Voordeckers &amp; Gils, 2007</li> <li>– Widmer 1985</li> <li>– Yosifon, 2016</li> <li>– Yermack, 2004</li> </ul>
	Independence	<p><b>The impact of independence on the efficacy of strategic decisions:</b> The extent to which the degree of independence of an overall board impacts the efficacy of strategic decisions.</p> <p>The extent to which the degree of independence of independent board members impacts the efficacy of strategic decisions.</p>	<ul style="list-style-type: none"> <li>– Bathla &amp; Rao, 1995</li> <li>– Bhagat &amp; Black, 2001</li> <li>– Bohern &amp; Storm, 2010</li> <li>– Carter &amp; Lorsch, 2004</li> <li>– Cavaco, Crifo &amp; Roudaut, 2017</li> <li>– Clark, 2007</li> <li>– Fama &amp; Jensen, 1983</li> <li>– Fernandes, 2008</li> <li>– Hooghiemstra &amp; Van Manen, 2004</li> <li>– Jensen, 1993</li> <li>– Johnson, Schnatterly &amp; Hill, 2013</li> </ul>

			<ul style="list-style-type: none"> <li>– Kang, Cheng &amp; Gray, 2007</li> <li>– Knyazeva &amp; Knyazeva, 2013</li> <li>– Miller, Wiseman &amp; Gomez-Mejia, 2002</li> <li>– Rosenstein &amp; Wyatt, 1990</li> <li>– Smith, 2012</li> </ul>
	Recruitment	<p><b>The impact of the recruitment on the efficacy of strategic decisions:</b> The means by which the recruitment process and recruitment criteria affect the efficacy of strategic decisions.</p>	<ul style="list-style-type: none"> <li>– Armstrong, Ittner &amp; Larcker 2012</li> <li>– Borch &amp; Huse, 1993</li> <li>– Cornforth, 2001</li> <li>– Coulson-Thomas, 2009</li> <li>– Daily &amp; Dalton, 2004</li> <li>– Dulewicz, 1995</li> <li>– Jensen &amp; Meckling, 1976</li> <li>– Jewson &amp; Mason, 1986</li> <li>– Johannisson &amp; Huse, 2000</li> <li>– Kile, Loscavio &amp; Whaley, 1996</li> <li>– Main, Bruce &amp; Buck, 1996</li> <li>– Ronen, Kashi, &amp; Balachandran, 1995</li> <li>– Shivdasani &amp; Yermack, 1999</li> <li>– Westphal &amp; Zajac, 1995</li> <li>– Nahar Abdullah, 2006</li> </ul>
	Turnover	<p><b>The impact of the turnover on the efficacy of strategic decision:</b> The impact of the turnover rate of the KPC and its subsidiaries' compositions on the efficacy of strategic decisions.</p> <p>The impact of the turnover rate of ministers/chairmen on the KPC board on the efficacy of strategic decisions.</p>	<ul style="list-style-type: none"> <li>– Asthana &amp; Balsam, 2007</li> <li>– Camerlo &amp; Perez-Linan, 2015</li> <li>– Dimopoulos &amp; Wagner, 2017</li> <li>– Gavin &amp; Cameron, 2010</li> <li>– Marcel &amp; Cowen, 2017</li> <li>– Petrovic, 2008</li> </ul>
<b>Board Leadership Structure</b>			
	Role Duality	<p><b>The impact of three cases of role duality in the organization on the efficacy of strategic decisions:</b></p>	<ul style="list-style-type: none"> <li>– Abels &amp; Martelli, 2013</li> <li>– Balia et al., 1996</li> <li>– Carter &amp; Lorsch, 2004</li> <li>– Dalton &amp; Daily, 1998</li> <li>– Fama &amp; Jensen, 1983</li> <li>– Ferris &amp; Jagannathan, 2003</li> <li>– Faleye, 2007</li> <li>– Guo &amp; Li, 2011</li> </ul>

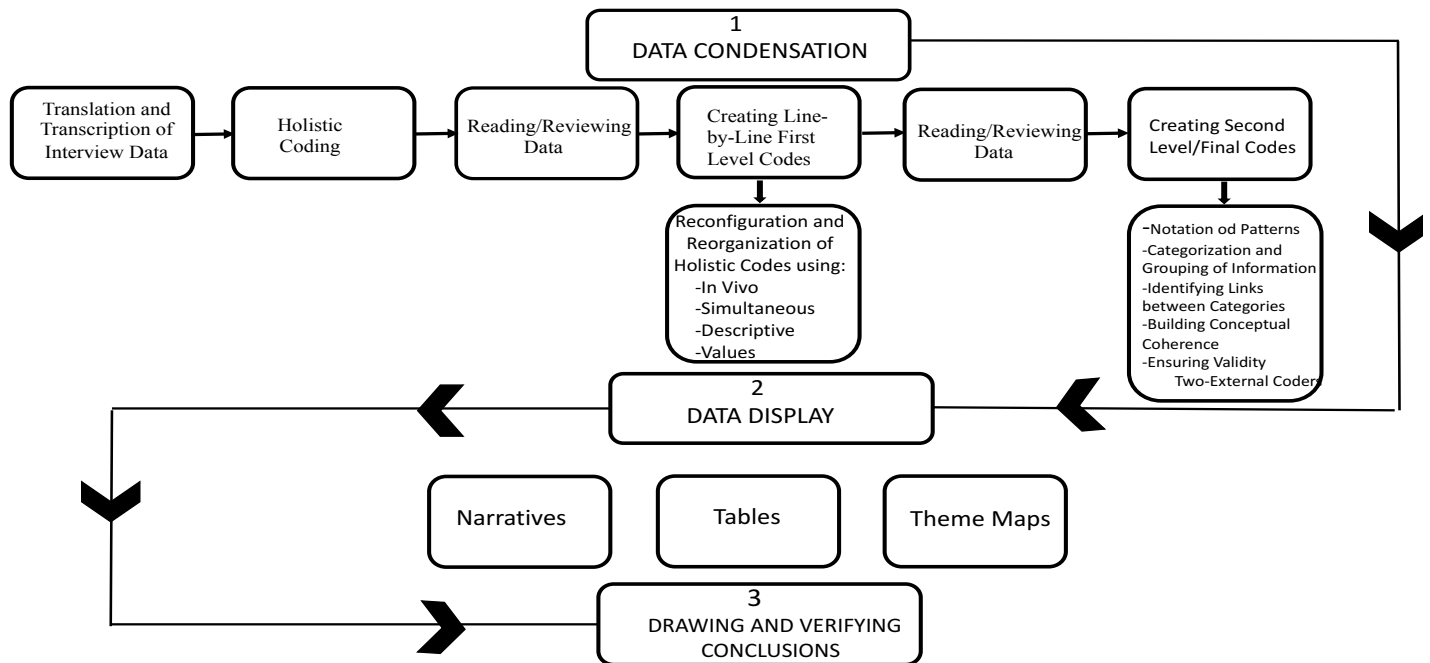
			<ul style="list-style-type: none"> <li>- Jensen &amp; Meckling, 1976</li> <li>- Link, Netter, &amp; Yang, 2008</li> <li>- Lorsch &amp; MacIver, 1989</li> <li>- Mintzberg &amp; Walters, 1990</li> <li>- Pearce &amp; Zahra, 1991</li> <li>- Ruigrock, Peck &amp; Keller, 2006</li> <li>- Stevens, 2012</li> <li>- Vance, 1983</li> </ul>
	-Chairman/ Oil Minister	<b>Case 1:</b> How the efficacy of strategic decisions is affected when the Chairman of the KPC (mother company) board is also the Oil Minister of Kuwait.	
	-Deputy Chairman/ CEO	<b>Case 2:</b> How the efficiency of strategic decision is affected when the Deputy Chairman of the KPC board is also the CEO of the KPC (mother company).	<ul style="list-style-type: none"> <li>- Stevens, 2012</li> </ul> <p>Stevens, 2008</p>
	-CEO/ Board Member	<b>Case 3:</b> How the efficiency of strategic decisions is affected when a CEO from a single subsidiary serves as a board member on a different subsidiary's board.	<ul style="list-style-type: none"> <li>- Stevens, 2012</li> <li>- Stevens, 2008</li> </ul>
	Incentive Schemes	<b>The impact of the incentive schemes on the efficacy of strategic decisions:</b> The extent to which incentive schemes are effective in motivating board members to prioritize the best interest of the company as opposed to their own.	<ul style="list-style-type: none"> <li>- Ballwieser, Bamberg, Beckman, Bester, Blickle, Ewert, Feichtinger, Firchau, Frickle, Funke, &amp; Gaynor, 2012</li> <li>- Boive, Bednar &amp; Aguilera, 2016</li> <li>- Conyon, 2006</li> <li>- Dogan &amp; Smyth, 2002</li> <li>- Filatotchev &amp; Allock, 2010</li> <li>- Jensen, 1994</li> <li>- Jensen &amp; Meckling, 1976</li> <li>- Lambert &amp; Larcker, 1993</li> <li>- Lazarides, Drimpetas &amp; Koufopoulos, 2008</li> <li>- Main, Bruce &amp; Buck, 1996</li> <li>- Murphy, 1999</li> <li>- Ronen, Kashi, &amp; Balachandran, 1995</li> <li>- Troeger &amp; Walz, 2017</li> <li>- Koufopoulos, 2008</li> <li>- Nahar Abdullah, 2006</li> </ul>

	Monitoring and Voting Systems	<p><b>The impact of the monitoring and voting systems on the efficacy of strategic decisions:</b> The extent to which the effectiveness of the monitoring system influences the efficacy of strategic decisions.</p> <p>The extent to which effectiveness of the voting systems influences the efficacy of the strategic decisions.</p>	<ul style="list-style-type: none"> <li>- Abbott, Park &amp; Parker, 2000</li> <li>- Banks, Woznyj &amp; Kepes, 2016</li> <li>- Bonazzi &amp; Islam, 2007</li> <li>- Bosse &amp; Phillips, 2016</li> <li>- Eisenhardt, 1989</li> <li>- Eulerich &amp; Henseler, 2017</li> <li>- Gillette, Noe &amp; Rebello, 2003</li> <li>- Jensen &amp; Meckling, 1976</li> <li>- Jewson &amp; Mason, 1986</li> <li>- Klein, 2002</li> <li>- Kile, Loscavio &amp; Whaley, 1996</li> <li>- Lipton &amp; Lorsch, 1992</li> <li>- Miller, 2002</li> <li>- Ramamoorti, Siegfried &amp; White, 2017</li> <li>- Ryan &amp; Wiggins, 2004</li> <li>- Shi &amp; Connelly, 2017</li> <li>- Raghunandan, Rama &amp; Read, 2001</li> <li>- Vagliasindi, 2008</li> <li>- Victor, Hults &amp; Thurber, 2011</li> </ul>
<b>Integrative Themes</b>	Political Affiliation	<p><b>The impact of political affiliation on the efficacy of strategic decisions:</b> How board members who are politically/non-politically affiliated influence the efficacy of strategic decisions.</p>	<ul style="list-style-type: none"> <li>- Alnajjar, 2000</li> <li>- Al-Sabah, 2017</li> <li>- Al-Sa'di &amp; Moench, 1988</li> <li>- Eisenhardt &amp; Zbaracki, 1992</li> <li>- Fan, Wong &amp; Zhang, 2007</li> <li>- Gause, Gause &amp; Gause, 1994</li> <li>- Ghabra, 2014</li> <li>- Herb, 2014</li> <li>- Kinninmont, 2012</li> <li>- Menozzi, Guiterrez-Urtiaga &amp; Vannoni, 2012</li> <li>- Segal, 2012</li> </ul>
	Cultural Influence	<p><b>The impact of the Kuwaiti culture on the efficacy of the organization's strategic decisions:</b> The impact of the Kuwaiti social culture on the composition of the KPC and its subsidiary boards and the extent to which it</p>	<ul style="list-style-type: none"> <li>- Alomar, 2015</li> <li>- Brouthers &amp; Brouthers, 2001</li> <li>- Chay, 2016</li> <li>- Al-Nasser, 2001</li> <li>- Denison &amp; Mishra, 1995</li> <li>- Elbanna &amp; Child, 2007</li> </ul>

		<p>trickles down to affect the efficacy of the organization's strategic decisions.</p>	<ul style="list-style-type: none"> <li>- Farah, 1979</li> <li>- Hofstede, 1984</li> <li>- El-Kebbi, 2013</li> <li>- Kraut, 1990</li> <li>- Marktanner &amp; Wislon, 2016</li> <li>- Al-Meles, 2007</li> <li>- Licht, 2001</li> <li>- Longva, 2006</li> <li>- Padgett &amp; Morris, 2005</li> <li>- Pistrui &amp; Sreih, 2010</li> <li>- Ringov &amp; Zollo, 2007</li> <li>- Segal, 2012</li> <li>- Schein, 2010</li> <li>- Stevens, 2008, 2012</li> <li>- Rafiee &amp; Sarabdeen, 2012</li> <li>- Yeh &amp; Woidtke, 2005</li> <li>- Zheng, Yang &amp; McLean, 2010</li> </ul>
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Figure 3.3 denotes the analytic steps taken:

**Figure 3.3: Manual Coding Steps**



Source: Author Illustration

### 3.9.4 Consolidating from Research Questions to Final Themes

The process by which the researcher moved from the research questions, to the final themes, has been explained in detail in the previous five sections. To show more clarity, this section shows the logic behind this consolidation, with support from previous studies.

Following from the aim of the study, research questions and conceptual framework outlined in chapters one and two were set out. The conceptual framework is the basis for the interview guide questions (See Table 3.6). Following Johnson, Schnatterly and Hill (2013), probing for composition was combined with characteristics. Johnson et al., (2013) make this combination to show that characteristics such as human capital and social capital can be broadly considered as compositional variables. Rather than simply the level of independence,



or externality of the directors of the board. Apart from the reasoning given by Johnson et al., (2013), grouping the variables of composition and characteristics together is also useful for this study, because it enables the researcher to cover a wide range of governance issues. This is useful in an explanatory study such as this, with emphasis on wide coverage. This reasoning was also the basis for combining the CEO duality with issues of board leadership structure. To reflect the conceptual framework, the aim was to capture as broad a view of issues that affect the leadership of the board as possible.

The first line coding of the responses to the interview questions yielded the pre-themes shown in Table 3.6. Further condensation resulted in the themes shown in the fourth column of Table 3.6. During coding, a decision was taken to include political affiliation as part of the final themes to reflect composition and characteristics. Similarly, cultural influence was grouped with themes to reflect issues in response to the second research question. Both themes are integrative, affecting all the other issues of composition, characteristics, duality and board leadership. However, because the influence of politics was felt more on issues of composition and characteristics, and culture seemed to impact more on issues of board leadership, they were grouped as shown in Table 3.6. The table shows the relationship between the research question, interview questions, holistic codes and the final themes. It also shows the integrative themes; political affiliation and cultural influence grouped separately before analysis.

**Table 3.6: From Research framework to Final Themes**

Research Questions	Interview Guide Concepts	Holistic Codes	Final Themes
<p><b>RQ1: How are board composition and characteristics perceived to impact strategic decisions on the board of the Kuwait Petroleum Corporation and its subsidiaries?</b></p>	<ul style="list-style-type: none"> <li>- Strategic Decisions</li> <li>- Board Involvement in Strategic Decisions</li> <li>- Strategic Decision Process</li> <li>- Information Asymmetry</li> <li>- Conflict of Interest</li> <li>- Board Independence</li> <li>- Turnover</li> <li>- Demographics</li> <li>- Experience</li> <li>- Political affiliations and connections of board directors</li> </ul>	<ul style="list-style-type: none"> <li>- Monitoring</li> <li>- Recruitment Process/Criteria</li> <li>- Receptivity to External Forces</li> <li>- Demographics of Board Members</li> <li>- Information Asymmetry</li> <li>- The impact of board conflicts of interest impact on Strategic Projects</li> <li>- Receptivity to Parliamentary Pressures</li> <li>- Impact of the importance of experience and length of experience on the board</li> <li>- Turnover</li> <li>- Recruitment Process/Criteria</li> <li>- Board Independence</li> <li>- Informal Conversation</li> <li>- Political Party Influence</li> <li>- The impact of Board Size on recruitment process</li> <li>- Alignment</li> <li>- Nepotism</li> </ul>	<ul style="list-style-type: none"> <li>- Tenure/</li> <li>- Experience</li> <li>- Altruism/ Patriotism</li> <li>- Independence</li> <li>- Recruitment</li> <li>- Turnover</li> </ul>

		<ul style="list-style-type: none"> <li>- Advantages and Disadvantages of Diwanias</li> <li>- Utility Maximization Behaviour of Board</li> <li>- Members</li> <li>- Lobbying</li> <li>- External impacts of Strategic Decision</li> <li>- Efficacy</li> <li>- Classification of Decisions</li> </ul>	
<p><b>RQ2: How is leadership structure-role duality perceived to impact strategic decisions on the board of the Kuwait Petroleum Corporation and its subsidiaries?</b></p>	<ul style="list-style-type: none"> <li>- Monitoring</li> <li>- Board Members Recruitment Process &amp; Criteria</li> <li>- Strategic Decisions</li> <li>- Board Involvement in Strategic Decisions</li> <li>- Strategic Decision Process</li> <li>- Voting on Strategic Decisions</li> <li>- Information Asymmetry</li> <li>- Incentive Scheme</li> <li>- Conflict of Interest</li> <li>- Role Duality</li> <li>- Political affiliations and connections of board directors</li> </ul>	<ul style="list-style-type: none"> <li>- The impact of social customs on the organization's culture (i.e. Urf)</li> <li>- Receptivity to External Forces</li> <li>- Role of Committees on Boards</li> <li>- Information Asymmetry</li> <li>- Effect of Chairman Personality on Strategic Decisions</li> <li>- The impact of board conflicts of interest on Strategic Projects</li> <li>- Receptivity to Parliamentary Pressures</li> <li>- Efficiency and Importance of Board Structure</li> </ul>	<ul style="list-style-type: none"> <li>- Role Duality <ul style="list-style-type: none"> <li>• Chairman/ Oil Minister</li> <li>• Deputy Chairman/ CEO</li> <li>• CEO/ Board Member</li> </ul> </li> <li>- Incentive Schemes</li> <li>- Monitoring and Voting Systems</li> </ul> <p><b>Integrative Themes:</b></p> <p><i>Political Affiliation</i></p> <p><i>Cultural Influence</i></p>

		<ul style="list-style-type: none"> <li>- Impact of dual roles of board members within the oil sector on the efficacy on strategic decisions</li> <li>- Effect of Different Personalities</li> <li>- Incentive Scheme and Remuneration</li> <li>- Informal Conversation</li> <li>- Political Party Influence</li> <li>- Alignment</li> <li>- Voting</li> <li>- Authority on the Board</li> <li>- Board Auditing</li> <li>- Nepotism</li> <li>- Advantages and Disadvantages of Diwaniyas</li> <li>- Utility Maximization</li> <li>- Behaviour of Board Members</li> <li>- Lobbying</li> <li>- External impacts of Strategic Decision Efficacy</li> <li>- Priority of Decisions</li> </ul>	
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### **3.10 Trustworthiness**

After conducting a systematic approach to analyse the qualitative research data, the researcher mused about how to demonstrate the trustworthiness of the study's findings. Various possible strategies exist which allow qualitative researchers to validate their research conclusions. According to Ritchie, Lewis, Nicholls and Ormston (2014), qualitative researchers use the term 'trustworthiness' to measure the quality of their research. The significance of this measure is derived from the concepts that qualitative research is conducted in the real world which may cause it to be impactful on real people's lives, and thus it concerns issues of rigour, integrity, ethics, merit and accountability. Therefore, qualitative researchers should not consider their opinions to be "unjudgable" (Miles et al., 2014, p. 311). The following three strategies were adopted to assess the trustworthiness of this research: confirmability, dependability and credibility of research findings (Creswell et al., 2007).

#### *Confirmability*

Confirmability is parallel to the concept of objectivity which refers to the extent to which qualitative findings are confirmed and ratified by external reviewers (Baxter & Eyles, 1997). A key concern within qualitative research is the degree to which the researcher establishes that their study's findings are not figments of his/her imagination, but an actual reflection of the participant's perceptions (Anney, 2014). Miles, Huberman and Saldana (2014, p. 311) recognize this issue as "unacknowledged researcher biases". Studies suggest that auditing, reflexive journals, triangulation and validation are all tools used to achieve the confirmability among qualitative research findings/conclusions (Anney, 2014; Bowen, 2009; Creswell, 2007; Lincoln & Guba, 1985; Seale, 1999). For this study, external auditing was conducted as a means of confirmability. Creswell (2013) explains that auditing is a process where external auditors review a study's findings to confirm that they are explicitly linked with

the exhibits of the condensed and displayed data (Miles et al., 2014). As previously mentioned, the researcher asked two outside external reviewers from the College of Business in Kuwait to recode 30 interview transcripts. To facilitate this process, the researcher presented all data collected in an orderly manner.

### *Dependability*

To demonstrate dependability, considering that human behaviour is malleable even under the same structural conditions, the study applied the following:

(i) A case study database: To enhance the validity of this study, a database was provided to external reviewers which consisted of organized transcripts from all 30 interviews, first level and second level codes, accompanied with a simple coding scheme. According to Campbell, Quincy, Osserman and Pedersen (2013), the simpler a coding scheme, the more reliable it is as a means of assessing discriminant capability. This is to enable external reviewers to individually evaluate the study's conclusions while also checking for their reliability against the research process. Information about coding rounds, external coders and intercoder reliability is summarized in Table 3.7.

(ii) Member check: Member checking, also known as respondent validation, was used as a means of validating conclusions interpreted from the 30 in-depth interviews conducted. Member checking is defined as a process where an interview transcript or data which has been analysed by the researcher, is returned to the interviewer for validation (Birt, Scott, Cavers, Campbell & Walter, 2016; Creswell, 2007; Doyle, 2007). The COREQ<sup>1</sup> acknowledges member checking as a valid method of increasing a study's rigour. Birt, Scott, Cavers, Campbell and

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<sup>1</sup> COREQ: *The Consolidated Criteria for Reporting Qualitative Research*

Walter (2016, p. 1803, cited in Tong, Sainsbury & Craig, 2007) argues that rigour is improved by “ensuring that the participants’ own meanings and perspectives are represented and not curtailed by the researchers’ own agenda and knowledge”. The type of member checking activity adopted in this study is the ‘member check interview’, where 6 critical members were chosen based on their experience, reputation in the oil sector and richness of information provided. The researcher went back and met with these 6 participants for a second time, where a summary was presented on the themes found in their interview responses, which included brief analysis of their interviews. The next step was for the interviewees to confirm or disconfirm the analysed data presented. This process is in congruence with a constructivist ontology because knowledge is co-constructed as participants remove and add to their data. (Birt, Scott, Cavers, Campbell & Walter, 2016; Doyle, 2007). Thus, member check was adopted to enhance validity of data analysed.

**Table 3.7: External Coding**

<b>Coding Rounds</b>	<b>Profile of External Coder</b>	<b>Coding Type</b>	<b>Number of Interview Transcripts Reviewed</b>	<b>Initial Inter-coder Reliability Score</b>	<b>Final Inter-coder Reliability Score</b>
1	-Professor in the field of Management  -Specialized in Organizational Behaviour	Free Coding	10 interviews	50%	79%
2	-Lecturer of Economics -Specialized in the field of Corporate Governance	Coding against coding scheme from round 1	20 interviews	62%	83%

## *Credibility*

To demonstrate credibility or being true to the phenomenon of interest, which, in this case, is the perceived impact of elements of corporate governance on the efficacy of strategic decision making, the tactics mentioned regarding dependability above that is, member checks and external review, also apply ( Birt et al., 2007; Creswell, 2013; Flyvbjerg, 2006; Miles et al., 2014; Lincoln & Guba, 1985; Torrence, 2012; Whitemore et al., 2001).

### **3.11 Assessing Perceived Efficacy**

One of the challenges in studies of agency theory, as well as in corporate governance is obtaining information about the actual workings of boards (Forbes & Milliken, 1999). The proceedings of board deliberations are notoriously shrouded in secrecy (Krause & Semadeni., 2013). Researchers have previously resorted to measuring certain indices of board composition, for example, tenure or experience against corporate outcomes such as profitability, turnover or return on assets (Asthana & Balsam, 2010; Chan Liu & Sun, 2013; Garay & Gonzalez, 2005; Hermalin & Weisbach, 2001; Hunag & Hillary, 2017). Unique to this study, is a consideration of the impact of agency viewed through the eyes of members of the boards of the KPC and its eight subsidiaries. That is, how the efficacy of strategic decisions is explored, is via the perceptions of the interviewees. Perceived efficacy is adopted from the psychological construct of perceived collective efficacy (Bandura, 2000; Hodges & Carron, 1992). This conceptualization will allow the researcher to access the insights that can be gained qualitatively through interpreting the opinions of board members about the impact of their own actions. This point of view is also the basis of the framing of the research questions; the aim of the questions is to retrospectively elicit the opinions of board members about their perceptions of the impact of certain corporate governance mechanisms on them and on the outcome of strategic decision efficacy.



### **3.12 Conclusion**

This chapter presents the research paradigm, methodology, and methods aimed at answering the study's research questions displayed on Page 9 of the thesis.

The philosophical underpinning of this study is centered on a constructivist ontology, and on an epistemological position that is interpretivist. The overall research strategy is an inductive qualitative case study approach. This study utilizes purposive sampling, in addition to in-depth qualitative interviewing as data collection tool. Regarding analysis, a thematic analytic approach was adopted and executed. The chapter also explains how the researcher handled issues of data management and ethicality. In these choices, the basis of the decisions made are set out and justified in detail. Chapter 4 presents the findings that resulted from the execution of the research design described and elaborated herein.

## **Chapter 4 Findings: Explaining the Impact of Governance and Agency on Strategic**

### **Decisions in the KPC**

#### **4.1 Introduction**

This chapter presents the findings that resulted from carrying out the research design detailed in the Methodology, Chapter Three. In this chapter, an analysis is carried out, utilizing an agency theory lens, of how issues of composition, characteristics and leadership structure of the Kuwait Petroleum Corporation (KPC) and the boards of its eight subsidiaries are perceived to impact on the strategic decisions which are made. This is done through an agency-conflict perspective, in line with the conceptualization that agency problems between the two external principals has shifted to conflict between the directors who owe their appointments to these principals. This is in keeping with the research questions on Page 9 of this thesis.

The chapter is organized as follows: The main, overarching themes are presented. These are board composition, board characteristics and board leadership structure. Subthemes of each overarching theme, as identified in the data, are then presented. For board composition and characteristics, these include tenure/experience, altruism/patriotism, independence, cultural practices and recruitment, turnover and political affiliation. For board leadership structure, three cases of role duality are identified and presented, as perceived by the interviewees. Additionally, findings relating to the influence of culture, incentive schemes, and monitoring and voting systems, are then presented. In each instance, respondents' perceptions of the impact of these mechanisms on the efficacy of their strategic decision making, are presented and analyzed through the agency problem lens of conflict of interest and information asymmetry. The board members' suggestions for alignment of interests are also presented. Representative quotations in support of these themes from a selection of participants were chosen, broadly representing the population sample.

Following this, for each theme identified above, its impact on strategic decision efficacy as interpreted from the perceptions of participants, is explored. This exploration is also supported by selected quotations from interviewees. The chapter ends, with a summary of the perceived impact of elements of corporate governance on strategic decision efficacy in the KPC and its eight subsidiaries. This sets the stage for the discussion chapter, in which these findings are explicitly linked to the corporate governance and agency theory literature.

## **4.2 Board Composition and Characteristics**

Interview participants indicated the significance of certain issues of governance arising from board composition and board characteristics (Carter & Lorsch, 2004; Clark, 2007; Van Ees & Van der Laan, 2012; Westphal & Zajac, 1998). The main recurring themes were tenure/experience, altruism/patriotism, independence, cultural practices and recruitment, turnover and political affiliation. Each of these shall be explained in detail, together with its perceived impact on strategic decisions.

### **4.2.1 Tenure/Experience**

Participants perceived tenure and experience as key characteristics, drawing attention to the fact that expertise can only be gained from years of experience (Vafeas, 2003). This was expressed by a board member from the Kuwait National Petroleum Company KNPC, as follows:

“According to my experience, not anyone can sit on the board of the main subsidiaries, which are PIC, KNPC, and KOC. The board members must be capable and familiar with all aspects of the board at least generally, plus they must have expertise in a particular area. So, this expertise, I see, can only come from years of experience. Unfortunately, this is not the case in

reality. For example, Al Zoor refinery was supposed to reach its execution phase much earlier, but two of our board members kept needing matters to be repeatedly explained. I said they don't have the experience for this... why else would they be on the board?" (BM1, Sub B)

Experience was also believed to be an important attribute in terms of the members of boards. In the words of a board member of the Kuwait Oil Company:

"The people they appoint in the composition of the board - it makes a difference who they are, what their experiences are, who they represent and what is their know-how." (BM1, Sub E)

The importance placed by participants on wide ranging experience is further shown by this statement from a board member of the KNPC:

"They should have the relevant expertise and financial background because, as subsidiaries, we run on a commercial basis. I believe from my experience that it is better to have a more diversified board in terms of background experience but not from the government." (BM2, Sub B)

#### *Tenure, Experience and Perceived Efficacy of Strategic Decisions*

In terms of the impact of tenure on strategic decision efficacy, as perceived by respondents, some significant interpretations may be made. Statutorily, board tenure is for a period of three years for both the KPC and its subsidiary companies. Respondents suggested that the longer the experience and the length of tenure of board members, the easier it would be for them to know when vital information was being concealed from them, by either fellow members of the board or the senior managers that they oversee. Therefore, they would be more

likely to have the required complement of information necessary for making strategic decisions.

In the words of a board member from the Kuwait Oil Company:

“Strategic decisions require different alternatives and options to be explored. And if you don’t have people on the board who have this ability and understanding, to inject optional alternatives, then they will always be sort of just rubber stamps...and this is the case within boards most of the time. You cannot make the best decisions if you don’t have the knowledge. You need them to know enough about the industry, so that they are not fooled by other directors or managers who have been in it for two decades. [Regarding] the people who make up the composition of the board, it makes a big difference who they are, what their experiences are, and what is their know-how.” (BM1, Sub E)

However, in contrast, some participants were also of the opinion that a longer tenure may lead to entrenchment, over familiarizing the board member with other board members and the management and leading them to take or side with strategic decisions which may be beneficial to themselves or the management that they patronize.

According to a board member from the Kuwait Petroleum International:

“People, board members, at this stage start by arguing why should we do this, we should do that. It’s true that we don’t know the agenda of individuals, but sometimes we can utilize negative agenda to our benefit. When individuals have been in the same place for too long, it causes problems, you know - they may start to support each other for the interest of the party that appointed them, or for the interest of managers over that of the people or the government when making decisions. I am sure not many in leadership positions will agree or understand,

but when we are in such an important sector like this we need to make the best out of issues. If we are going to sit and analyze every single issue, which is natural since we are all human, we will end up wasting a lot of time, and time is money in this sector.” (BM2, Sub A)

Linked to the above, is the observation by participants that board members’ length of tenure could also ensure alignment, in terms of the interests of the board members, with the senior managers on one hand, and an alignment in strategic decisions, on the other hand. This variant of alignment is illustrated by the quotation below:

“If there is no alignment between us as board members and with managers there will be problems in the process of making a decision, which will need attending to, and this will result in delaying a decision or making the wrong decision. Now with each decision delayed, no matter how big or small the decision, the situation will result in its own unique consequences. And as a big organization, this is one of the problems we face often with our senior managers. Even though by being in this position they get unbelievable benefits, for some greedy people it is not enough.” (BM1, Sub B)

As mentioned above, participants also felt alignment to mean the proceeding of strategic decisions one after the other, or in parallel. An example of this is the Al Zoor Refinery, Kuwait’s latest refinery which is nearing completion, and the Clean Fuel Project, which aims to upgrade all of Kuwait’s refined output to globally accepted sulphur content emission standards. Respondents felt that these two projects ought to run in parallel to one another, since they are, ideally, complimentary. However, contrary to the obvious benefits of complementarity in this case, these projects were executed separately. As stated by a board member of the Kuwait National Petroleum Company:

“The issue isn’t only about executing strategic projects, but it’s about the alignment of these projects. If a board member can’t see this then he is not only not qualified to make decisions of such importance, but he is unqualified to even be in this sector. You, I and all the board members you interviewed, and all this country in a sense depend on us, and we are only a subsidiary... That is why we need experienced members in the sector, because they are the ones that can see what works and what doesn’t. If not, then the overall benefit will not be realized. It’s like when you want to manufacture a car, and the tires are finished before the engine... what is the use? ... you have to finish all the pieces together. If this happens with projects, there will be the costs of delay and the cost of the problems this delay causes. For example, I am sure you heard about the clean fuel project and Al Zoor refinery. Do you know that Al Zoor refinery was supposed to start before the Clean Fuel Project, in such a way that it would complement the overall integration...? We said we have to finish all together... But that didn’t happen, and one project delayed the other, and we are bearing the costs now even though neither is finished.” (BM1, Sub B).

However, this execution of projects in parallel was not believed to be ideal by all respondents. Some participants felt that non-alignment in decision making is a positive, as when two strategic decisions are decided on simultaneously and executed they may result in conflicting interests. In execution, for example it was fairly common that the same contractor was used for more than one project. When pressed, regarding delivery times, the contractors were liable to supply false information on the status of one project in order to buy time for another. This is illustrated by the following statement of a board member of the Kuwait Petroleum Corporation:

“At one point during the strategic processes of Al Zoor and CFP, asymmetric information came from the reason that we didn't want the projects to go together. Two of the projects moving

together created a conflict of interest. They will affect each other... The other thing is that a good contractor who wants to do a good job on the first project, gets pressured on the other project and this pushes them not to give us the right information whether they mean to or not, because you know pressure causes you to make mistakes and it also causes you to say things to get people off your back; at least until they fix it. There was a decision that if he took a package on the first project he wouldn't take a package on the second project. So, this prevented us from certain competencies. So, this segregation of the two projects would have been much more efficient if parliament didn't push some of us, and it probably would have had better outcomes.” (BM1, Company X)

In summary, tenure and experience were perceived to be important elements or characteristics of board composition that impact the efficacy of strategic decisions. Respondents perceived the length of tenure and experience as essential in reducing information asymmetry (Eisenhardt, 1989). However, other respondents believed such longevity in tenure to be a negative, as it can lead to entrenchment (Sørensen, 2000). Length of tenure was also found to promote more as well as less alignment (Nyberg, Fulmer, Gerhart & Carpenter, 2010) between the interests of the board members and managers, and of the strategic decisions themselves. That is, it may be interpreted that some respondents believe that long tenure allows an alignment of interests (between directors and managers and the board) and an alignment of strategic decisions, while others believe that lengthy tenure works against any alignment of strategic interest.

#### **4.2.2 Altruism**

Respondents perceived altruism to be a vital first step to achieving optimal strategic decisions (Jensen, 1994). Altruism, which is perceived as a board member's tendency to



prioritize the wellbeing of the company over personal well-being, is considered noteworthy by participant board members, as illustrated by a board member of the KNPC:

“If I make a decision it has to be fair and professional, and it has to take into account safety and my liability toward society - these are all very important issues...Today I can make a decision just for the sake of making one....so it's not because values are written on paper, it's because of the human element inside me.” (BM1, Sub B)

A closely related, interesting interpretation of the principle of altruism is patriotism. Respondents held that the sense of love for ones' country or nationality could be of significance in terms of making decisions that would be in the best interest for the country. As put by a board member of the Kuwait Foreign Petroleum Exploration Company:

“I know my responsibility towards my country - I am constantly put in a situation where I must make a decision which I know will affect my country... as a board member I have been raised like this through the system...I have to live it and exercise it...not just plainly talk about it...” (BM1, Sub F)

#### *Altruism, Patriotism and Perceived Efficacy of Strategic Decisions*

Participant responses suggest that altruism may reduce the disputes that arise within the board of the mother company and with the subsidiary boards, as perceived by a board member from the KUFPEC. This reduction in conflict may result in better efficacy of strategic decisions:

“Our company’s overall performance to the economy and country should be the most important target in the mind of all us board members, and in every decision a board member makes in respect to the subsidiary boards, even the smallest decisions are important.” (BM1, Sub F)

A reason for this position may be because fewer conflicts arise when board members put their own interests aside and work for the greater good of the company, and by extension, the country. Altruism was also perceived to reduce the passing of inaccurate information by members of the mother board to a subsidiary board and vice versa. As put by a board member of the Kuwait Petroleum Corporation:

“The devil is in the details. The overall board’s job is not to focus on details. That’s why we create committees for these details. This minimizes a little the chances of information asymmetry, and at the same time it doesn’t waste our time. We should be honorable enough, as individuals, and as citizens to do our best for the company and the country ... All by telling the truth about our activities.” (BM1, Company X)

Closely related to this, there is a suggestion that board members perceive altruism as being helpful in increasing alignment between strategic decisions. As mentioned by a board member from the mother company, the KPC:

“Because of the importance of the oil sector to the Kuwaiti economy and the magnitude of the decisions that we make and the impact they have on the oil sector and the Kuwaiti economy in general, this type of position, of individuals, as believers in the economic prosperity of their country, represents the challenges and also the opportunities to be able to work to make decisions on a strategic level to deliver what is best for the state.” (BM3, Sub A)

However, some respondents felt that adequate compensation and remuneration will eliminate the need for any sort of altruistic or patriotic behavior on the part of board members. A board member of the Petroleum Industries Company believes that:

“One thinks that with all the money they are getting they should thank God and be honest, and not have to be reminded of their duty to the country and their fellow citizens. The oil sector is the highest paying sector in Kuwait. Also, compensation packages... Packages are a lump sum that top executives and directors are paid after they retire: bonuses, first class tickets and hotels for travel purposes, a new car, and the latest mobile phones. All these would motivate anyone.”

(BM4, Sub C)

To summarize, participants perceived altruism to be of importance in terms of impact on decision making efficacy. Of significance also is the perception that patriotism was a key motivator for strategic decision efficacy. Analysis also suggests that altruism may be perceived by respondents to impact strategic decision efficacy by limiting conflict of interest between directors, information asymmetry between boards, and the alignment of strategic decisions. However, one respondent indicated a perception that financial remuneration, not altruism, should be a sufficient motivator.

#### **4.2.3 Independence of Directors**

Participant responses indicated that board independence, or externality of membership of board members (Bathala & Rao, 1995; Clark, 2007), is a significant element of board composition in terms of its perceived impact on the efficacy of strategic decisions. In the words of a Kuwait Petroleum Corporation director:

“I think you need your government to support you. First of all, the business that we are in is an international business. There is definitely a political link. We need markets, investments, investments in foreign countries, and the right people, internally and externally, on board... so therefore political involvement and a political umbrella, from outside of the board, is important if it’s played correctly. But to isolate ourselves totally on a commercial basis regardless of politics, in my opinion it will not work.” (BM1, Company X)

Responses indicated that ‘independent board directors’ in this context were considered to be directors who were not currently holding positions in the oil sector. This is inclusive of those who have never worked in the oil sector, those who were from the private sector, and those who are ex oil sector members who may have retired before they moved up the hierarchy to become board members.

As described by a board member of the Petroleum Industries Company, independent directors are:

“[...] referred to as the people who have no positions inside the oil sector, but they have knowledge of the oil field. They could be either ex oil sector executives or business men from the private sector.” (BM1, Sub C)

External directors are nominated by the Oil Minister and confirmed by the Executive, by Amiri or royal decree. However, since the Oil Minister also has his/her appointment ratified by the Parliament, he/she is subjected to a lot of pressure to appoint nominees of parliament. These appointees of the Oil Minister are often also officials of the Ministry of Finance, and the Ministry of Electricity, with political implications which will be discussed in Chapter Five (Ghabra, 2014; Stevens, 2012).

### *Board Independence and Perceived Efficacy of Strategic Decisions*

Participant responses to the idea of greater or lesser proportion of independence on the boards were mixed. Some respondents were of the perception that greater independence in board membership, or a higher proportion of non-oil sector representatives, would lead to fewer disagreements with entrenched board interests (Ruigrock et. al, 2006). In the words of a board member of the Petroleum Industries Company:

“Why do I say that when we have a good number of independent directors from the private sector on the board it is a much safer environment? Because these members are not here to play silly cultural games like unfortunately many here do - you feel their intention is to get their job done. They say, ‘Ok so this is the problem, and these are the options we have. Let’s meet, let’s talk, and this is what we should do’. They don’t have other factors to distract them. Done. They do it soundly. But for our friends here, it takes forever with all the under the table goals. They have people always expecting things from them, so they are constantly thinking of how to satisfy these people... For example, employment issues, issues with tenders, being forced to decide with or against decisions taken on the board.” (BM2, Sub C)

On the other hand, another board member of the same Petroleum Industries Company was of the opinion that:

“Another type was that they had representatives from the ministries. The ministry of electricity is a main customer of the KPC because they need fuel, gas, and oil to run the power stations. Sometimes the ministry of environment was on the KPC, but this is a clear conflict of interest. The ministry of finance was also represented because it is the main source of wealth for the state of Kuwait, and most of their wealth is from the oil sector. But for me, I

think it is better when members from the K-companies are on the KPC's board. For me having a lot of ministers' external nominees isn't the best way to go because these ministers will act as spies subconsciously and this will cause them to misinterpret things and react to that misinterpretation. I don't know, but this is my personal opinion.” (BM1, Sub C)

These conflicting opinions about independence, suggest that there are also varied perceived impacts of independence of directorship on strategic decision efficacy. On the one hand, board independence by lessening disagreements with entrenched board members, may lead to greater agreement over strategic decisions. On the other hand, where externality is perceived as a negative, it may lead to more disagreement over strategic decisions. Additionally, participants suggest that the independence of directors may encourage entrenched directors to conceal vital information, which may affect strategic decision efficacy. As a board member of the KPC put it:

“The other thing is that good external directors may pressure the board more about details regarding important decisions, and this pushes the existing members, through their committees, not to give the right information whether they mean to or not, because you know pressure causes you to make mistakes and it also causes you to say things to get people off your back. So, this prevents certain competencies. So, this segregation of the board may cause lack of agreement, and projects could be much more efficient if parliament, through these external people, didn't push us, and we would probably have better outcomes.” (BM1, Company X)

In terms of alignment of decisions, participants indicated that less independence, or decreased externality, may make it easier for the board to reach consensus about strategic decisions. This may suggest that the larger the number of entrenched directors, compared to

externals, the easier it would be for the board to achieve consensus in making strategic decisions. In the opinion of a board member of the Petroleum Industries Company:

“Conflict occurred on the subject of investing in Vietnam. There was KPI which was pushing for that investment, and at the same time one of the board members nominated by the minister didn’t want this project, so he got other nominees to back him, and misrepresented information about the decision to parliament. This is very common. So, he tried to mislead the project. This happens when there are no alignments. Also, the impact of the politics of Kuwait caused this. The head of international marketing at the time knew the head of a newspaper and he wanted the project to fail because he had an interest in getting a contract and he didn’t. So, he would tell the newspaper to publish wrong or, like I said, misleading information. This happened with Al Zoor refinery.” (BM1, Sub C)

In summary, responses indicated that board independence, conceptualized in this study as the level of membership of non-oil sector directors on the boards of the Kuwait Petroleum Company and its subsidiaries, was considered to be of considerable importance. The effect of the levels of internality on strategic decision efficacy were varied, with some interviewed board members suggesting that more externality was beneficial, while others were of the opinion that less externality was preferable. Participants also suggested that the presence of external directors may lead to the concealment of vital information and cause misalignment when vital decisions are made.

#### 4.2.4 Recruitment

Recruitment emerged as a significant concern to respondent board members (Cornforth, 2001). Specifically, respondents expressed concern about the lack of availability of clear cut criteria in recruitment. In the words of a former CEO of the Kuwait Petroleum Corporation:

“There should be an official criterion which is actually followed...regardless of whether some people in the oil sector have depended on ‘Urf’ in the nomination of other boards’ members, and the promotion of themselves. There shouldn't be conflict of interest - that’s the most important thing I would make sure of because now this is causing us a huge problem.” (CEO, Company X)

In terms of selection criteria, some information about the background, mentioned earlier in the section about context, is worth repeating. The Chairman of the KPC board is the Oil Minister, who has leeway to appoint and replace board members. This leeway is subject to the veto power of the Amiri, or the Executive. Additionally, the board members of the subsidiary companies are sole appointees of the board of the KPC without veto (Stevens, 2012). Unsurprisingly, the ways in which these powers of veto are employed, and their likely impact, are of intense interest to members of these boards.

Selection is influenced by ‘Urf’ in Kuwaiti culture, which is the Kuwaiti variant of the Gulf culture of ‘Wasta’. These terms generally refer to the age-old custom of nominating and appointing board members, not based on whether they were the best for the position in terms of experience and knowledge and background, but rather in terms of who would benefit from a specific member being on the board (Aldossari & Bourne, 2014; Stevens, 2012). In the words of a board member of the Kuwait Oil Tanker Company:



“There are no written criteria unfortunately. But I can tell you what criteria we have depended on generally speaking. They must have at least 25 years of experience in the oil sector, and if they are directors from outside, they need to have some knowledge about the oil sector, especially regarding the existing projects at the time they are hired. For our board here in PIC, generally speaking, one should be from within the company, an insider; two to three should be from managerial jobs outside the company; and two or three are usually independent board members from outside the KPC organization. But to answer your questions, yes, I would say it’s purely Urf..” (Chairman, Sub D)

As expected, these strongly held opinions about recruitment and recruitment policy, tend to influence the perceptions of respondents about the effect of such an approach to recruitment on strategic decision efficacy.

#### *Recruitment and Perceived Efficacy of Strategic Decisions*

Respondents expressed the opinion that more care and more rigour in the selection and recruitment of board members, would lead to greater compatibility among members of the boards of the Kuwait Petroleum Corporation and its subsidiaries. A board member of the Kuwait Oil Tanker Company opined that:

“For example, the chairman wanted to employ certain board members from outside the oil sector, and the CEO realized that they were all from Minister X’s political party or supporting parties. So, the CEO said that it’s not within Minister X’s authority to do that, and he doubted Al Omair’s intentions that they are political only. This was a huge problem and is still ongoing. [as of September 2015]. The chairman of KPC is voted on by parliament and they don’t make

him chairman for no reason. These conflicts affect the direction and all aspects of strategic decision making, because with the focus on these problems, decisions that are part of the overall strategy are delayed while board members and parliamentarians are being stubborn against each other. And this in fact is what happened during the past term. This chairman doesn't know how to handle the pressure. This my personal opinion.” (Chairman, Sub D)

Lack of compatibility, as indicated in the quote above, may work against strategic decision efficacy, as members, feeling a lack of common ground, may delay reaching consensus over decision making.

Additionally, board members were of the opinion that care over selection of board members would improve the information available for optimal decision making, as able board members would be more apt to recognize the lack of appropriate or misleading information, provided by managers and other board members. As put by a member of the board of the Petroleum Industries Company:

“The people they are bringing are not necessarily the best for the job - they are bringing them for the wrong reasons. So, at this point, no matter what your structure is, Wasta (political influence) will ruin it for you. You must understand the process of hiring board members, that, even once they are hired, they are sometimes not able to understand or make a valuable contribution, because they simply don't understand the information presented by the managers. And that's why any decisions they don't make correctly will harm the results of the KPC's strategic projects. We need a more rigorous process for picking people, a process that will minimize the harm done - a process that will ensure that at least they understand what other managers and other board members are saying.” (BM1, Sub C)

Yet another perceived impact of recruitment on decision making is the recognition that the compatibility of members of the board, which may be ensured by rigour of selection and recruitment, may affect strategic decision efficacy. Board members were of the opinion that carefully selecting new members to join their ranks may maximize the chances that the new members, being possessed of the right skill sets, may find it easier to see commonality of interests. In other words, interests regarding strategic decisions may be more likely to align if due care is given in recruitment for the right 'fit'. As put by a board member of the Kuwait Petroleum International:

“At the end of the day, this group has to work with the board and make strategic decisions through the board, so if they don't work properly with other members, from the beginning then it will reflect negatively on the decision making. So, if there is no discussion or negotiations or agreement, it means you are bringing in a group of people that are alien to the business.” (BM1, Sub A)

Summarily, the process by which individuals were chosen to join their ranks, was of paramount importance to respondents. The lack of transparency about recruitment standards was of concern. Findings suggest that this lack of rigour in selection is perceived by respondents to affect the quality of information available for decision making, to increase the likelihood of conflicting viewpoints, and to lead to a non-alignment of interests; all of which impact strategic decision efficacy.

#### **4.2.5 Turnover**

Turnover, in board membership, emerged as a major concern to respondents. Existing policy requires that a new board be constituted every three years. However, in practice, the

board is reconstituted in many instances, in less than a year (Al-Sabah, 2017; Ghabra, 2014, 2009; Stevens, 2012). This has resulted in high board instability, and it has, as expected, affected organizational outcomes such as strategic decisions.

In the words of a board member of the Petroleum Industries Company:

“The oil sector has a long history of trying to improve its governance and trying to provide transparency in the decision-making process. But I think a law should be created, a clear law on what best practices to implement. I really don’t like that one time they have representatives of ministers on the KPC board, and another time they take them out. There is no stability at all. We can’t even compare which structure for making a decision is better because by the time we start realizing it, the structure changes. This all depends on the minister and his directions.”  
(BM1, Sub C)

The concerns expressed by the respondents makes it necessary for a distinction to be made between turnover as it relates to independent or external board members, and turnover as it relates to executive board members who came up from the ranks within the oil sector. This distinction is similar to that made in the last section, where participants were observed to have made differentiations in their perceptions of the effect of recruitment of directors from the oil sector, and recruitment of directors from outside the oil sector.

It may be expected that this instability would affect board members’ perceptions about the efficacy of strategic decisions.

### *Turnover and Perceived Efficacy of Strategic Decisions*

Respondents perceived that instability caused by constant turnover may promote dissent among members of the board and impede functioning. Board members may not have time to build relationships (Gispert, 1998), which may make conflicts more likely.

A board member of the Kuwait Petroleum Corporation put it thus:

“The objectives, and vision and the board should support you to achieve what needs to be achieved. If you have a different board every time, it will impact even the achievement of the objectives. Because sometimes you set your strategy to implement it, and by the time you are ready you get a board that questions your objectives, and then you have to go back to convince them of the objectives that have been set with previous board. It’s a huge waste of time and money but what can we do? We have to take the time, our culture and all you know. And this is not a sector we want to be playing with at all. It causes a delay in implementation and decision making of our strategic projects.” (BM3, Company X)

This reappraisal of strategy already decided, as suggested from the above, may be expected to have an effect on the efficacy of strategic decisions. This aspect is further expanded on in the section on political involvement.

Another way in which instability may affect decision efficacy is through the impact it may have on the quality of information available for decision making. Respondents suggest that committee members may find that information is withheld from them because managers do not believe that they will be around long enough to act on correct information.

A board member of the Petroleum Industries Company put it this way:

“Interestingly, you will find that board members who don’t come from a political background, sometimes probably feel that they do not need to share critical information with external appointees. Not because they don’t like them, but because they do not think they will last long enough to be of use. You see this even with the executives on the committees. For example, me, I think this issue should not be left to the orientation of the oil minister. The type of people that should go into the board should be refined. The minister can nominate people, but at the end it depends on the type of quality you pick. There’s a lot of judgement. Even if you put a law that defines the type of people who should be on the board, I think it’s important that the minister should nominate and not choose who should be on the board. Because if the minister represents his group then they will control what he will do. The same goes for board members. He should nominate people and these names should go to the Amir.” (BM1, Sub C)

Additionally, instability of tenure on the boards of the Kuwait Petroleum Corporation and its subsidiaries was perceived by members of these boards as a reason why decision making could not align. Members felt that they did not have sufficient time to find common ground and to establish common interests. As a board member of the Kuwait Petroleum Corporation says:

“Also, every time people know a new board is going to be composed they start putting off important decisions, they do this because they know that they will not have enough time to agree with the new comers. Even if they shouldn’t, you will still find them doing this. And when it’s time to compose a new board for one of our subsidiaries, then they all start to focus on the KPC board.” (BM1, Company X)

The effect of this lack of time to build common ground, may mean that there is less consensus in decision making.

To conclude, recruitment was considered a key aspect of corporate governance by respondents in terms of its effects on decision making. Turnover was perceived by board members as a negative, as members did not have time to have understood the information they were being required to deliberate on and decide with. Board members also had a negative perception of turnover because of insufficiency of time to form relationships and find common ground.

#### **4.2.6 Political Affiliation-Integrated Theme**

Political and party affiliation are considered to be of considerable significance by respondents to corporate governance in the state-owned enterprise sector of the Kuwait Oil Company and its subsidiary companies (Menozzi, Guiterrez-Urtiaga & Vannoni, 2012; Agrawal & Knoeber, 2001). Political affiliations, through the effect they have on recruitment, tenure and turnover (Stevens, 2012), are perceived by respondents as critical to board composition and corporate governance.

As said by a board member of the Kuwait Oil Company about the current (2015) o-Oil Minister/Chairman of the Kuwait Petroleum Corporation:

“You see the minister is part of the Islamic political party. So, he wants many of the Board members in the KPC and in the subsidiaries to be from that party and to be from outside the organization. Since he is elected from parliament his party will put pressure on him to appoint board members from the party itself. So, he is trying to come up with a new trend, you could say, which includes board members who have never been in the oil sector and have no knowledge in the oil field. Most of the board of the KPC, especially the CEO, and even board members from subsidiaries, are not happy with this change he wants to make. They are worried

this will affect their compositions. He's changing something that has been a certain way for the last 25 years." (BM2, Sub D)

The Oil Minister is nominated by parliament and has his/her appointment ratified by the Executive or Amiri decree. The Oil Minister, who is also Chairperson of the Kuwait Petroleum Corporation, is therefore beholden to those who nominate him in parliament (Stevens, 2012). However, respondents varied in their perceptions of the consequences of this pressure. Some board members felt that independent board members particularly, and the chairman, were better able to withstand political pressure as they had the interest of the company and the economy at heart.

Such was this perception of political interference that a board member of the Kuwait Oil Tanker Company had this to say:

"We define this risk to the sector as political interference...the parliament...also another example is K-Dow when the approximately \$2 billion penalty was paid by Kuwait for cancelling the contract. The oil sector called it a "change of decision" but we all know it was because parliament was against it, and the reason for that was that parliament members weren't going to get anything out of it, so they are like let's not agree on this." (BM1, Sub D)

To further illustrate this perception, when the Oil Minister/ Chairman belonged to a certain political group, his actions and decision making reflected the intentions and motivation of that party. In other words, the party pressured him into making decisions and taking actions for their benefit, whether or not this also benefited the organization and the economy at large. This relationship is exemplified through an extreme case by Minister X, when he pushed hard



to appoint eight additional members on the KPC's board. Interviewees argued that these board members all represented his political party and none of them had the proper qualifications to be board members in the oil sector, and that their intent was solely to serve the purposes of their party over the purposes of the state.

As put by a board member of the Kuwait Oil Tanker Company subsidiary:

“Our oil minister also sits on the KPC board as chairman and this is a very bad thing. It's bad enough when a minister comes to us who has a weak personality or one who totally lacks the know-how of the technical issues of the company, but it's even worse when this same minister also is pushed around by his political group.” (BM3, Sub D)

#### *Political Affiliations and Strategic Decisions*

Unsurprisingly, these concerns expressed by board members about the impact of political affiliations on corporate governance, affected their expectations of the perceived efficacy of strategic decisions. Respondents felt that board members coming in with a political agenda were likely to increase dissension in key strategic decisions, as they may hold views that are driven by their political allegiances, rather than by what is in the best interests of the firm.

A board member of the Kuwait Oil Tanker Company felt that:

“There's a decision, that was taken politically, which involves establishing a company called the Petroleum Services Company. There was no need for this company... they did it because they said that all the services for the oil companies should be under one company. This is not an efficient decision because every individual company has its own entity, has its own services which is different from the others... They said, 'Let's group the common services into one

company'. The decision that was made had a political reason behind it and not a practical one. We could not agree on this. So, the manpower that was there was a lot - where should they take them now? There were board members, managers, all kinds of employees. All the companies already have their own manpower - what should they do with the manpower? So, this caused an extremely heavy load on the companies because the manpower from the Petroleum Services Company had to be spread out through all the companies. This placed leaders, like the executives, and directors in jobs which they had absolutely no background in. Because of policy they had to be considered in decision-making. There wasn't a big problem in regular everyday decisions, but the problem was the strategic projects. People said many of them didn't know anything about the oil sector, but because there is a commitment, they are Kuwaitis, and they all have contracts, they cannot be fired for this reason." (BM3, Sub D)

This conflict of interest was also felt to have repercussions for the quality of information available for decision making. Respondents suggested that other non-political directors and managerial committees, may attempt to conceal vital information from more politically exposed directors, in order to reduce their influence on the decision cycle. As a Kuwait Petroleum Corporation board member put it:

"My reflection on this is that it depends on how the role is played on it. So how does the minister understand his role as a politician figure, and as chairman of the board? Now, as a political figure, he needs to play two important roles. First, he brings the political umbrella. You probably understand and appreciate that the oil sector is the highest profile sector in the country. There are a lot of influences, interferences, and that's why this is why this political umbrella is like a political buffer to the negative interferences. These interferences are all negative by the way, just because they are simply interferences. And then you find that the

managers, the executives, especially on committees, they hide important information from these political appointees. Therefore, if the minister can understand his role properly, then he can be very effective in a good way, he can bring in all sorts of good results. At the same time, being on the board, he will understand the issues of the oil sector, so when he eventually goes back to the government, he can relate the needs, the obstacle the requirements of the sector, to make a link with the government and its plans.” (BM1, Company X)

Closely related to this was the perceived influence of politically exposed directors on the alignment of strategic decisions. Respondents that came up from the ranks in industry, felt that it was difficult for them to find common ground with directors who were politically exposed, and this may result in a misalignment in terms of strategic interests and in an inability to agree over strategic decisions.

A member of the board of the Kuwait National Petroleum Company said:

“I think that it is fine, but it could be more efficient. Kuwait has many good concepts of governance, but the problem is in the practice. I feel that we should start by increasing the number of independent board members, but not so much that they outvote traditional oil sector appointees. If that happens, they would not be able to see things the same way. They wouldn't agree on important decisions. We should choose efficiently the ones who will add value, and the ones who will ensure that the interests of the KPC are important. And to do this we must enhance and clarify the process of doing this...I am a supporter of having more private sector people.” (BM2, Sub B)

In summary, it was found that political influence was a primary concern to members of the boards, the Kuwait Petroleum Corporation and its subsidiaries. All interviewees were

unanimous in this concern with political involvement, particularly about the amount of influence the Parliament had with the Oil Minister/Chairman. The generally emergent belief was that the Oil Minister, as a nominee of parliament, was subject to too many influences. These influences were held to influence decision efficacy in various ways. Firstly, the political leanings of non-oil sector board appointees were perceived to promote conflict with other members of the board (s). In committees, it was felt that other board members and managers may attempt to conceal crucial information from politically exposed board members, to prevent political blowback. It was also felt that members with an overly political agenda were less likely to find common ground with other members who were of a more industry driven orientation.

#### **4.2.7 Findings in respect to Research Question 1**

Before proceeding to analysis related to the second research question, this section provides a summary of the findings in respect to the first research question:

How are board composition and board characteristics perceived to impact the efficacy of strategic decisions?

Key elements of board composition and characteristics: Findings indicate six elements of board composition that participant board members consider crucial to corporate governance in Kuwait's main state-owned enterprise and its subsidiaries. These elements of corporate governance are tenure/experience of board members, altruism/patriotism of board members, independence or externality of board members, recruitment of board members, turnover of board membership, and political affiliation of board members.

Responses from interviewees indicated that tenure and experience were perceived to be noteworthy elements or characteristics of board composition, that impact the efficacy of strategic decisions. Respondents perceived the length of tenure and experience as essential in

circumventing information asymmetry. Length of tenure was also found to militate for and against alignment between the interests of the board members, managers, and of the strategic decisions themselves. That is, it may be interpreted that some respondents believe that a long tenure allows an alignment of interests, between board members, managers and the board, and an alignment of the strategic decisions themselves, while others believe that a long tenure works against an alignment of strategic interest.

Participants perceived altruism, together with patriotism to be of importance in terms of impact on strategic decision efficacy. Analysis also indicates that altruism may be perceived by respondents to impact decision efficacy by limiting conflict of interest between directors, information asymmetry between boards, and the alignment of strategic decisions. However, some respondents indicated a perception that financial remuneration, not altruism, should be a sufficient motivator.

Responses indicated that board independence, was also considered to be of considerable importance. The effect of the levels of internality on decision efficacy were varied, with some interviewed board members suggesting that more externality was beneficial, while others were of the opinion that less externality was preferable. Participants also suggested that the presence of external directors may lead to the concealment of vital information and cause misalignment of when vital decisions are made.

Additionally, the process by which individuals were chosen to join their ranks was of great importance to respondents. The lack of transparency about recruitment standards was of particular concern. Findings suggest that this lack of rigour in selection is perceived by respondents to affect the quality of information available for decision making, thus increasing the likelihood of conflicting viewpoints and leading to a non-alignment of interests; all of these impact strategic decision efficacy.

Turnover was also considered a key aspect of corporate governance by respondents, in terms of its effects on decision making. Turnover was perceived by board members as a negative, as members did not have time to understand the information they were being required to deliberate on and decide with. Board members also had a negative perception of turnover because of the insufficiency of time to form relationships and find common ground.

Lastly, it was found that political influence was a primary concern to members of the boards, the Kuwait Petroleum Corporation and its subsidiaries. The generally emergent notion was that the Oil Minister, as a nominee of parliament, was beholden to too many influences. These influences were held to influence decision efficacy thus: the political leanings of non-oil sector board appointees were perceived to promote conflict with other members of the board (s). It was also felt that other board members and managers may attempt to conceal crucial information from politically exposed board members, and that members with an overly political agenda were less likely to find common ground with other members who were appointed from the oil industry.

#### **4.3 Board Leadership Structure**

In line with the overall aim of this study, assessing the impact of certain corporate governance mechanisms on strategic decisions' efficacy in Kuwait's premier SOE, and in keeping with the study's second research question, 'How is board leadership perceived to impact the efficacy of strategic decisions?', respondents' perceptions about leadership structure are herein analysed. Respondents concerns about board leadership (Goyal & Park, 2002), spanned several themes: role duality, cultural influences, incentive schemes, and monitoring and voting. These four subthemes, aggregated under the main theme of board leadership structure will be presented in terms of the perceived impact on the efficacy of strategic decisions.

### 4.3.1 Role Duality

CEO duality, the practice of a single individual serving as both CEO and board chair (Krause, Semadeni & Cannella, 2013), was of significant concern to the respondent board members of the KPC and its subsidiary companies. As earlier mentioned, in the backgrounding set out in the literature review chapter and in the case description in the methodology chapter, the Chairman of the board is simultaneously Kuwait's Oil Minister. As will be seen, this was considered by respondents to be of considerable significance (Stevens, 2012).

The second case of concern with role duality, has to do with the CEO of the KPC who is also serving as the Deputy Chairman of the board. The third instance of role duality manifests across the boards of the right subsidiaries, where their CEOs held interlocking directorships which are set on each other's board (Steven, 2008, 2014). Each of these instances of duality and their perceived impact on the efficacy of strategic decisions are presented in turn, below.

#### *Role Duality- Oil Minister/Chairman*

Respondents varied in their perceptions of the Oil Minister/Chairman of the KPC board duality. While some interviewees were of the opinion that it is beneficial for the Oil Minister to also serve as Chairman, others believed that it is detrimental.

In the words of a board member of the KPC:

“It has been an issue for a long time, whether the oil sector should be chaired by a political figure, or whether it should be totally independent. There are people in the sector who feel it's better to segregate the oil sector from the government and private sector. Even members in the SPC called for segregation and isolation of the oil sector. But in my opinion, this is wrong. I think you need your government to support you. First of all, the business that we are in is an international business. There is definitely a political link. We need markets, investments,

investments in foreign countries... so therefore political involvement and political umbrella is important if it's played correctly. But to isolate ourselves totally on a commercial basis, in my opinion it will not work.” (BM5, Company X)

Some respondents were therefore of the opinion that overt political influence was beneficial to the SOE because of the international nature of its business and its uniqueness to the Kuwaiti economy as a whole.

However, a fellow board member of the KPC had this contrasting view:

“The KPC, maybe you know, was established on a commercial basis. So, it's commercial. So, in order to balance between this commercial basis, which politics always interferes with, is a big challenge for us. The existence of the minister as chairman of KPC negatively affected us, especially in this last year with Minister X. They once tried to do a study on corporate governance with the KPC. And one of the recommendations was to have the chairman be a different person from the minister. This is to push away the politics. In some countries they have this structure, but the situation in Kuwait is different. Because in Kuwait we have parliament. For example, Aramco is independent from any political interference. In Kuwait, that's not the case unfortunately. Many of our strategic projects have been badly affected by this situation. So, for us this is a very interesting area... and a very important area for you to be looking at.” (BM3, Company X)

This is representative of the perception that political influence, as represented by the duality of the chairman-minister role, was not in the best interests of the SOE and its subsidiaries.



*Role Duality. CEO/ Deputy Chairman*

Respondents were also varied in their perception of the utility of the CEO/Deputy Chairman duality on the KPC board. In the words of a board member from the KPC:

“They need to have a deputy chairman when the chairman is not available. They need somebody who really has the technical background of all the business, and also the connection with the government. So, the CEO was chosen to be the deputy chairman. It’s not for convenience. It is necessity. If there is a need to bring in one of the other members as deputy chairman, that is fine also. The same formula applies to the subsidiaries.” (BM1, Company X)

Interviewees who supported duality in this instance argued that it was in the best interests of the SOE, since the Chairman was also the Oil Minister with direct access to the Government and, in his absence, the Deputy Chairman would be an optimal substitute. He/she typically understood the technicality of the business while maintaining the valuable political link to the Government. For these respondents, duality in this instance is a necessity and not a mere convenience. This duality is also replicated across the subsidiaries, in the sense that the subsidiary CEOs sit on their boards. However, they do this as ordinary board members and not as deputy chairmen (Stevens, 2012). This will be represented in greater detail in the third instance of role duality encountered.

The opposition to role duality in this instance is illustrated by this quote:

“If the CEO himself is on the board, then how would he be able to monitor himself? It doesn’t make sense. The CEO could raise an issue to the board and then effect other board members to support him saying that he knows better, or because he belongs to a political party, or is

pressured politically from any one of these parties. This would not be good for the strategic decisions.” (BM2, Sub D)

This section of respondents felt that in those instances where the CEO acted as chairman, he would, in effect, be supervising his own self, with the perception being that this self-monitoring would be counterproductive.

*Role Duality: Deputy CEO/ Board Member*

The third case of role duality observed, existed amongst the eight subsidiaries where deputy chief executive officers in one company served on the board of a sister company. In contrast to the two cases of role duality presented above, respondents were unanimous in their perception that the DCEO as board member duality was a positive one. This was put forward by a board member from the KPC:

“You have one member from a sister company sitting on the board. Most likely, this other member will be a DCEO. The true reason, that has been hidden, is to give them a chance for promotion. If I bring somebody from KOC for example, and I put them in KNPC, it will broaden his experience from upstream to downstream. So, by exposing him to a different dimension of the business, when he gets promoted in the future to a position like chairman of KOC or KNPC or to the board of KPC, he will have the experience and know-how to make the best decision on the strategic projects. So, the choice of people promoted will apply to people who actually have potential, and if we increase the number of people who have potential we give the KPC more qualified people to choose from.” (BM1, Company X)

Responses from participants suggested that this instance of duality worked to ensure that board members who had the opportunity to serve as DCEOs in other boards had a broadening of experience. Responses also suggest that this broadening was perceived to come about by exposure to various other dimensions of the oil industry. It could also be viewed as a means of developing future leaders in the oil industry. This is corroborated by a board member of the KPC, thus:

“When you have leaders with different experiences across subsidiaries, they can input far more, for both the company where they were executives and where they are board members.” (BM2, Company X)

#### *Role Duality and Perceived Efficacy of Strategic Decisions*

Expectedly, interviewees’ perceptions about role duality had implications for the perceptions of its impact on decision efficacy. As suggested by the quote below, made by a board member of the KPC, duality was considered a positive for reducing conflicts of interest. When the Chairman also served as CEO, it could be expected that by covering both roles (i.e. by being a representative of both the oil sector and the political sphere), the Oil Minister/Chairman role could lessen the conflicts of interest that may arise between the respective constituencies.

“I think that shielding the company away from the political umbrella, by separating the two roles and operating on a totally commercial basis may hinder the operations because the KPC is governmental and has commercial targets, but at the same time we have objectives with the government that we have to achieve. We have international objectives that we have to achieve, like investing in other countries. We have a triangle. At one point it is the KPC who is the

operator, policy making is supposed to be SPC, and the regulator is the oil ministry. If the oil ministry is playing its efficient role with the KPC and it achieves the objectives that it's supposed to, then we can coordinate with them. But unfortunately, today, as the KPC, we are playing both these roles. If the ministry was playing a proper role, then the situation would be very different - the oil minister would be able to acquire what the KPC and K-companies need and want from the oil ministry as oil minister. So, this is ruining the triangle.” (BM5, Company X)

Responses suggest that another way in which duality is perceived to impact on the efficacy of decisions, is the fact that a separation of roles may limit the flow of information which may itself limit the use that the information is put to. As put by a board member of the Kuwait Petroleum Corporation:

“Also, the SPC has a role, which is to set general policies. When its representative is also a board member, like the chairman/oil minister, it is a good thing. The policy setting role then combines, in terms of information sharing, with the KPC and oil sector. The oil ministry here acts as the army to it.” (BM5, Company X)

Responses also indicated that a combination of roles may be perceived as being conducive to an alignment of decisions. The bridging of roles that is achieved by duality may also, make for a bridging or alignment of perspectives in terms of decision making. This statement by a board member from the Kuwait Oil Tanker Company serves to illustrate this observation:

“Having the CEO on the board can be a good thing because he is a direct connection between management and board and makes supervision easier. It is even better when the chairman is also Oil minister, as he ensures that the interests of the sector and the politicians are the same. It really helps in making decisions. So far it has been working.” (BM2, Sub D)

In summary, as regards to role duality, this study has mixed findings as regards to respondents’ perceptions of its utility. Some respondents were of the opinion that a merging of roles was beneficial, while others were of the opinion that a separation of roles would be of more utility. As regards to the perceived impact of duality on the efficacy of decisions, respondents suggested that a merger of roles would reduce conflicts of interest and promote alignment between the goals of the SOE and the Parliament. Respondents also indicated that the merger of roles on the board would also allow better sharing of information between the spheres spanned by the roles, and therefore improve on the efficacy of decisions.

#### **4.3.2 Cultural Influences**

Culture, a peoples’ collective adherence to norms and values that distinguishes it from other peoples or societies (Ghabra, 2014; Hofstede, 1984), is, understandably, considered by participants to significantly impact on corporate governance in the KPC state owned enterprise and its subsidiaries.

The cultural context of Kuwait therefore was anticipated to be of importance to interviewees in terms of its effects on the relationships that were part of corporate governance, that is, relationships between board members, relationships between board and managers, and relationships between the boards and the external regulatory agencies. As put by the Chairman of a KPC subsidiary, the Kuwait Oil Tanker Company:

“We are all Kuwaiti and most of us leaders have been in the oil sector for a lifetime. We know how things go, even if it’s not strictly by 1, 2, 3, rules, and it has been working, but again maybe in ways not optimally. Now we must reconsider many things because oil prices went from 120 dollars a barrel to 20 dollars a barrel, so no matter how important our culture is, our country’s survival is more important. Our relationships, in the board, with the managers, and the SPC, all this is impacted by culture. We must always be prepared to let this work in favor of the industry and the country.” (Chairman, Sub D)

Significantly, interviewees indicated that it was through the values they hold, as decision makers (Licht, 2001), that culture influenced corporate governance in the Kuwaiti oil sector.

Interviewee responses revealed that the Kuwaiti custom of ‘Urf’ with its negative aspect, known as ‘Wasta’, in which undue influence was used, as a result of nepotism, was of concern (Aldossari & Bourne, 2014; Al-Sabah, 2009). In the words of a board member of the Petroleum Industries Company subsidiary of the KPC:

“Three interrelated factors affect this efficiency: Wasta (nepotism), structure, and politics. The people they are bringing are not necessarily the best for the job - they are bringing them for the wrong reasons. So, at this point, no matter what your structure is, Wasta will ruin it for you. You must understand that throughout the process of hiring board members, and even once they are hired, they are affected by their political party, and the chairman can be directly affected by the national assembly. And that’s why any decisions that aren’t taken correctly will harm the results of the KPC’s strategic projects. We need a more rigorous process for picking people, a process that will minimize the harm done.” (BM1, Sub C)

Another significant influence from Kuwaiti Urf or culture is the custom of ‘Diwaniya’ (Al-Naser, 2001; Ghabra, 2014). Men gather to informally network and to discuss current events according to the social class they belong to. This may serve the purpose of a means of sounding out policy before enacting it, or of sounding out individuals informally. A board member of the Kuwait Oil Tanker Company put the benefits of ‘diwaniya’ thus:

“I can’t check out a manager just based on an informal conversation I had with someone else about him, but this allows me to keep my eyes open. This is the advantage of listening to talk in diwanias (i.e. social gathering places for men in Kuwait), because it’s like you are warned about what to look out for, and that is where you hear about board members and managers who have personal interests conflicting with those of their work.” (BM1, Sub D)

As may be expected, the interviewees felt that Kuwaiti Urf, or culture, with its attendant Wasta, tends to have an effect on the efficacy of decision making as revealed further below.

#### *Cultural Influences and Perceived Efficacy of Strategic Decisions*

Interview responses indicated that participant board members perceived the overwhelming impact of Wasta, or nepotism, to be negative, as the competing interests of directors over who to hire and promote can promote dissension and conflicts of interest among them. This then lessens the likelihood of them agreeing over crucial decisions.

In the words of the Chairman of the Kuwait Oil Tanker Company:

“I wouldn’t say much of the conflict was small - generally, it depends on the priority of the decision it affects within a specific strategic decision-making process, and it also depends on the size. For example, if it is a position in which a lot of the directors as well as higher placed

managers have a strong interest, this can cause unnecessary competition and disagreement between them, and it may have a significant impact in relation to agreeing over decisions, and there may be a serious problem.” (Chairman, Sub D)

Interviewees also perceived cultural influences to be of importance in terms of the effectiveness of decisions as a result of the influence of Diwaniyah. Diwaniyah, as explained above, is perceived to lessen the likelihood of concealing important information, as most actors had access to information that was not accessible through formal channels. As put by a board member of the Kuwait National Petroleum Company:

“We had a case once where one of lower level management was appointed by a strong Wasta. He wasn’t here for long, less than a year, and his reporting always seemed to stand out compared to other managers at his level, on a certain issue. This was first brought to my attention unofficially before it was brought up in an official way. This lower level manager was my friend. Once we were at a common Diwaniya we went to on Wednesdays, and while we were talking someone brought up the manager’s name, so then my friend started telling me about his suspicions. I was aware that I was able to learn more things in this way and I realized that the reported numbers were not consistent with the related project... He and others at his level and department were responsible for reporting to me the financial progress of the budget for our subsidiary ...as part of the project’s ongoing process.... However, it turned out that he and some others owned a company that was involved in the maintenance of equipment and machines related to PIC. So, the fact that he had decided to “adjust” his reporting was because his main priority was his own company...this situation is recurring in the oil sector... His work was audited by PIC board after I brought this issue up to the CEO and the CEO brought it to our board.” (BM1, Sub B)



In terms of alignment of interests, respondents felt that the shared culture was a binding force as all board members were Kuwaiti, approached issues from a common perspective, and observed the same societal and religious mores. As put by a board members of the Kuwait Oil Tanker Company:

“In Kuwait, when you work in the Oil sector, where all are Kuwaiti, we all come from the same religions and social background. We do not have other foreign points of view, not even from around the Gulf. You find that this makes things much easier. We are able to agree more quickly since we see things the same way. You see all these corporations in the West - they have so much diversity on the boards that it’s hard for them to understand each other, let alone make up their minds on what to do next or in the future, so yes, it’s definitely easier for us, I can tell you that.” (BM1, Sub D)

Summarily, culture or Urf, in particular that of nepotism, and Diwaniya (informal assembly), were perceived to be of importance to corporate governance in the KPC state owned enterprise and its subsidiaries. These elements of culture were felt to impact the efficacy of decision making in the following ways: respondent perceptions of the impact of nepotism on the interests of directors was a negative one; respondents felt that competing interests among directors to fill recruitment slots was likely to promote conflicts of interests among them; and respondents’ perceptions about the role of Diwaniya suggest that they felt it to be a vital source of additional informal information which could lead to more informed decision making. Additionally, respondents felt that the commonly held and shared Kuwaiti culture may lead to improved alignment of decisions.

### 4.3.3 Incentive Schemes

Participant board member's responses indicated that incentive schemes were an important corporate governance mechanism (Murphy, 1999). Although the oil sector paid the highest remuneration in the Kuwaiti economy (Stevens, 2008, 2012), additional demands made on top executives caused them to be sensitive to their remuneration. Typically, oil sector directors were required to work longer hours and for more days than other private sector employees. In the words of a board member of the Kuwait National Petroleum Company:

“At the end of service for board members and top management, the oil sector decides to compensate our work hours for all those years by giving us a large end of service remuneration. In my case, this amounted to 30 years, including being a board member. So, what happens is that at the end of our service there's something called الميزة الافضل (entitlement) which remunerates its senior management, such as at DCEO level and above, with the better of the two laws. Al Ahli law says that you work 6-8 hours a day, 5 days a week, but the oil sector law says you work 10 hours per day minimum and for six days a week, so you have to compensate for the extras. As you can imagine, we (board members) are all interested in this.” (BM2, Sub B)

External politics were also felt to have a significant influence on the incentive scheme (Fan, Wong & Zhang, 2007). Parliament influenced the Oil Minister/Chairman, sometimes using this influence to control board composition. This was via the Chairman cancelling remunerations. This, in turn, prompted resignations and vacant positions were filled by directors who were beholden to certain political interests. As put by a director of the Petroleum Industries Company:

“The problem is that we in the oil sector are playing around. Sometimes parliamentarians objected and put pressure on for Minister Y to stop this package or that. One time, he sat on the KPC board and told them that he was under immense pressure to stop this package, so they said ok this will be the last package, so whoever wants to leave can leave. The last package was October 2013. I saw the document that went from the CEO of the KPC to Minister Y that we want to retire the following names with packages, and Minister Y approved. As a type of compromise, he wanted this document to show to parliament and to advise them that this was the last package. After that, three specific individuals didn’t leave at that time who were from the subsidiaries because the sector told them they wanted them to stay. So, these three individuals verbally asked whether, if they stayed, they would be compensated later. They were told ‘yes’, but all this was done verbally.” (BM3, Sub C)

It may be seen in the analysis below how this preoccupation with remuneration is perceived to impact on decision efficacy in the KPC state owned enterprise.

#### *Incentive Schemes and Perceived Efficacy of Strategic Decisions*

Respondents were unanimous in their perception that adequate compensation lessens the agency problem of conflicting interests. Responses suggested that they felt if their financial obligations were properly met, they were more likely to focus on the tasks at hand (i.e. strategic decision making and control). In the words of a board member of the Kuwait National Petroleum Company:

“Now I don’t know if you heard about the alternative strategy’; it created the entitlements. We all feel that if they take care of this, take care of us, we can work better, and know that our families are taken care of. That all this time we spend away from them, is not for nothing. So,

to be fair, we work better, do our jobs better. Finally, that will mean that the decisions we are here to make are better, because we will focus better.” (BM2, Sub B)

Also, responses suggest that participants perceived that adequate compensation makes resignation less likely, which may serve to reduce the agency problems of information asymmetry. The perceived opinion was that if there was less turnover, it was less likely that vital information on operations that might impact on decision making would be lost. A board member of the Kuwait Foreign Petroleum Company put it thus:

“Now Minister X has said that when people come and go less frequently, it will mean that there will be less loss of information arising from those leaving. I agree with this. People become experienced in their work in committees, they develop a real relationship, a real understanding of top executives, and they suddenly decide to leave because they feel that they are not paid enough. This can only be bad for the company. That’s why everyone is scared and concerned about this issue.” (BM2, Sub B)

Participants also were of the perception that adequate compensation would foster alignment of interests, in the same manner that it lessened conflicts of interest. Adequate compensation, responses suggest, was perceived to promote alignment by making it more likely that board members would be motivated to focus on the task at hand, and agree on the way forward.

“In these days when the compensation is seen as okay, our people focus on the job at hand and even seem to quarrel with each other less. We perceived this. Well, this is not surprising.

When people have solved their financial problems, they work better. It was not always like this.” (BM2, Sub B)

In summary, remuneration was considered a vital aspect of corporate governance by respondent board members, in respect of the Kuwait Petroleum Corporation SOE. It was also found that respondents were very conscious of external political influences on the incentive schemes in the petroleum sub sector. As expected, these perceptions also affected respondent views of their impact on the efficacy of decision making.

Respondents unanimously felt that adequate compensation reduced agency problems by being seen to make conflicts of interest and alignment less likely. This is in addition to the perception that adequate compensation may lessen the likelihood that vital information is not shared.

#### **4.3.4 Monitoring and Voting Systems**

Respondents perceived that the monitoring system adopted by the KPC state owned enterprise and its subsidiaries was a crucial mechanism for corporate governance (Lipton & Lorsch, 1992). The SOE has developed what is known as the gate system to monitor its planning decision-making system. An indication of the nature of the system can be interpreted from this quote from a board member of the Kuwait National Petroleum Corporation:

“We have in the oil sector, what we call the gate and phase system. Any strategic decision must pass through this system. Phase 1 is the inception phase then you reach gate 1, which is the pre-feasibility. The criteria for the prefeasibility phase is different for each decision, so are the deliverables. Then comes gate 2, which is the end of the pre-feasibility phase. Phase 3 is the feasibility phase. Then gate 3, which has even more stringent deliverables. Here the board of directors approve the commitment of funds. For each gate, the department of planning checks on each phase or gate. Anyway, so the commitment of funds goes to the KPC because it’s a

part of the KPC's thirty-five-year plan. Phase 4 is called front end engineering load, and then gate 4 you say is the execution of the plan, the decision." (BM1, Sub A) \*

In terms of efficacy of the system, responses from participants unanimously indicated that they perceived that it was very effective, if properly adhered to. In the words of a board member of the Kuwait Oil Company:

"Monitoring occurs from KPC planning, from the gate system. If I was to ignore my board (i.e. sub-board) and go directly to corporate planning KPC then I will look bad. There are quarter objectives that we have to meet. It's a periodic checkpoint. For example, this December is the feasibility stage of the Bahrain decision...people from KPC planning sitting in the meetings in PIC through the different phases of the gate system. This is very important because they report back the KPC CEO who sits on the board there...you must also understand that we can't follow the gate system 100 percent always, but at least the basics...we have to meet requirements of the KPC and my partners as best as we can, so delays, mistakes, and high costs can be brought down to the minimum. It really works, if you stick to it." (BM2, Sub C)

An additional mechanism used to carry out the monitoring function is management performance reporting. Respondents perceived that it was a positive for some aspects of governance such as the planning and decision making system, if adequately followed. As a board member of the Kuwait Oil Tanker Company put it:

"First we evaluate reports of performance from managers. These reports include safety reports, operations report, finance reports, risk reports, reports on our joint ventures progress, human resources report...Monitoring takes place, as I said, by the performance reports. Also, some

active board members repeatedly ask the CEO about certain managers' performance. They want to get different suggestions at different times by board members on certain doubts they may have regarding certain managers. We also hold inboard meetings where some managers are ordered to attend and get asked questions by board members face to face. This is good for us, as we get to know each other's thinking, and we know all the time what is happening.” (Chairman, Sub D)

Regarding voting (Gillette, Noe & Rebello, 2003), the established system was as follows: Since there were seven members on the KPC board, when it came to decision making, if half of them voted for the decision and the other half voted against it, then the decision the board adopted was what the Chairman had voted for. Interviewees perceived this system to be inadequate because it allows the Chairman in this case to cast the final vote, and heightened the risk of political interference in decision making. This was expressed as follows by the Chairman of one of the subsidiaries:

“Half of the board members and the chairman must agree. I don't see this system is for the best of the organization, because as with Minister X for example, it opens the door for political affiliation to have an immediate effect on the vote itself, and as you can see this reflects upon our strategic projects...The good aspect of this voting system is if the chairman isn't there then the deputy chairman votes for him... Issues which are not clear need to be further studied which takes time.” (Chairman, Sub D)

These mechanisms were perceived by respondents to affect decision efficacy, as discussed below.

### *Monitoring, Voting and Perceived Efficacy of Strategic Decisions*

Respondents perceived that ineffective monitoring had the effect of making it more likely for conflicts to arise between directors and with top management. Responses suggest the perception that less monitoring leads to an unchecked increase in the forming of coalitions, which increases the likelihood of conflicts of interest between competing coalitions. In the words of a board member of the KPC:

“In order for monitoring to be effective as well as efficient, there should be consistency between management performance and the boards’ expectations. When they (directors) are working together, doing all that committee work, they see things in the same way and they fight each other less. One of the things you notice is that if we do not supervise them so much, they (managers) have space to form these groups that oppose us, instead of concentrating on how to meet the goals we give them...At least this is one thing in our hands.” (BM3, Company X)

Respondents also perceived that frequent monitoring might act to lessen the complexity of information to be processed, as directors would be more in tune with the ongoing operations and would not be so easily misled by management. Closely related to this is the perception among respondents that a lack of monitoring may reduce cohesiveness among board members.

“The issue isn’t only about monitoring strategic projects, but about having the information to make these decisions. If a board member can’t see this then he is not only not qualified to make decisions of such importance, but he is unqualified to even be in this sector. The more we do this work together, the more it unites us all, all the board members you interviewed, that is why we need experienced members in the sector, because they are the ones that can see what works and what doesn’t. If not, then the overall benefit will not be realized.” (BM1, Sub B)



To summarize, monitoring and voting, as well as management performance reporting systems, were perceived by interviewees to be key mechanisms for corporate governance. In terms of their perceived impact on the efficacy of decisions, responses suggested that ineffective monitoring may increase the chance of conflicts arising from the unchecked formation of coalitions. Interestingly, responses also suggest that participants perceived that effective monitoring and voting systems may reduce the complexity of information available for decision making and that this may, in turn, reduce lack of cohesion between directors.

#### **4.3.5 Findings in Respect to Research Question Two**

Before concluding the chapter, a summary of the findings in respect of the second research question is presented:

‘How is board leadership perceived to impact the efficacy of strategic decisions?’

Key elements of Board Leadership: Findings indicate that four elements pertaining to leadership were perceived to be significant by respondents, in terms of their impact on the efficacy of strategic decisions in Kuwait’s main state-owned enterprise. These elements are role duality, cultural influences, incentive schemes, and monitoring and voting.

Responses from interviewees suggest that role duality is a noteworthy element of board leadership, with participants expressing mixed perceptions of its efficacy. Some respondents were of the opinion that a merging of roles was beneficial, while others were of the opinion that a separation of roles would be more useful. Responses also suggested, regarding the perceived impact of duality on the efficacy of decisions, that a merger of roles would reduce conflict of interest, and promote alignment between the goals of the SOE and parliament. Respondents also indicated that a merger of roles on the board would also allow better sharing

of information between the spheres spanned by the roles, and therefore improve on the efficacy of decisions.

Culture or Urf, in particular that of nepotism, and Diwaniya (informal assembly), were perceived to be of importance to corporate governance in the KPC state owned enterprise and its subsidiaries. These elements of culture were felt to impact the efficacy of decision making in the following ways: respondents felt that competing interests among directors to fill recruitment slots was likely to promote conflicts of interest among them. Also, respondents' perceptions about the role of Diwaniya suggest that they felt it to be a vital source of additional informal information, which could lead to more informed decision making. Additionally, respondents felt that the commonly held and shared Kuwaiti culture among them, tends to lead to improved alignment of decisions.

Also, remuneration was considered a vital aspect of corporate governance by respondent board members, in respect of the Kuwait Petroleum Company SOE. Respondents were very conscious of external political influences on the incentive schemes process in the petroleum sub sector; and these perceptions also affected respondent views of their impact on the efficacy of decision making.

Respondents unanimously felt that adequate compensation reduced agency problems by being seen to make conflicts of interest and alignment less likely. This is in addition to the perception that adequate compensation may lessen the likelihood that vital information is not shared.

Lastly, regarding monitoring and voting, as well as management performance reporting systems, interviewees perceived their impact on the efficacy of decisions to increase the chance of conflicts arising from the unchecked formation of coalitions. Interestingly also, responses suggest that participants perceived that effective monitoring and voting systems may reduce

the complexity of information available for decision making, and thus reduce any lack of cohesion between directors.

#### **4.4 Conclusion**

This chapter of the thesis presents the findings intended to answer the research questions stated on Page 9.

Consequently, it is structured into two sections. The first section, pertaining to the first research question, presents the first overarching theme: board composition. The various elements of board composition deemed important in terms of their perceived effect on strategic decision efficacy are presented and their earlier mentioned impact analyzed. Tenure, altruism, independence of directors, recruitment, turnover and political affiliation are assessed in terms of their impact on strategic decision efficacy, as analyzed through the lens of agency theory. In the second section of the chapter, in keeping with the second research question, the second overarching theme, board leadership, is identified and elements pertaining to it are presented and analyzed. Role duality, cultural influences, incentive schemes, and monitoring and voting are assessed in terms of their perceived impact on the efficacy of strategic decisions in the Kuwait Petroleum Corporation.

These different perceptions of the impact of elements of board composition, characteristics and board leadership on the efficacy of strategic decisions, are the basis of the theoretical discussion that is the subject in Chapter 5.

## **Chapter 5 Discussion: Theoretical Anchors for the Impact of Governance and Agency on Strategic Decisions in the KPC**

### **5.1 Introduction**

In Chapter 4 of this study, the findings were presented. The main aim of the chapter was to gain an understanding of how elements of board leadership, board characteristics and board composition were perceived to impact strategic decisions. This is in line with the aim of this study, which is to explain how the impact of the politicization of the governance structure of the KPC affects its strategic decisions. As conceptualized in the second chapter of this thesis, the key outcome of the politicization of the governance regime of the KPC, is the tension between board members, acting as agents representing two conflicting principals. These principals are the Kuwait Oil Ministry and the Kuwait Parliament, or National Assembly. Viewed from an agency lens, the conflict over control of the KPC between the Executive and the legislature is conceptualized as having shifted into the board of directors of the KPC. Therefore, the directors' perceptions about elements of governance that affect their performance in terms of strategic decisions, were presented under the two overarching themes of board composition and characteristics, and board leadership structure. In addition, sub-themes of each overarching theme, selected for their perceived impact on strategic decisions to the board members of the KPC and its subsidiary companies, were also presented. An initial analysis of the perceived impact of these subthemes, seen through an agency theory lens, was also presented.

In this chapter of the thesis, the consequence of the impact of board composition, characteristics and board leadership, on strategic decisions made by members of the board of the KPC, as perceived by themselves, is discussed. Viewed through an agency theory lens, this perceived impact is explained in depth, with theoretical support. In line with the research

questions, the problems of politicized governance, arising from issues of composition, characteristics and leadership, perceived to impact on strategic decisions, are examined from an agency-conflict lens. The board members' suggestions for alignment are also discussed, with support from the literature. Finally, implications, for governance in the KPC are also highlighted. These implications are the basis of recommendations to policy that are made in the next concluding chapter of the thesis.

The discussion is ordered in line with the ordering of the research questions. That is, the consequences of board composition and characteristics for strategic decisions, as perceived by participant board members, is first presented in Section 5.1. This is followed by the consequences of board leadership structure for strategic decisions, as perceived by participant board members, discussed in Section 5.2. The chapter concludes with implications of these elements for governance in the KPC, presented in Section 5.4. Attributions to quotes from the findings in support of the exposition in this chapter are shown by using the designated suffix from the interviews. For example: (BM1, Sub C).

## **5.2 Perceived Consequences of Board Composition and Characteristics in the KPC and its Subsidiary Boards**

Interviewee board members identified the following six elements regarding board composition and characteristics, as the most significant in terms of their impact on the efficacy of strategic decisions: Tenure, altruism/patriotism, independence of directors, recruitment, turnover and political affiliation. Each of these elements will be discussed in terms of their perceived efficacy on strategic decisions. That is, their consequence in terms of conflict of interest between directors, and asymmetry of information, will be discussed in turn.

### **5.2.1 Perceived Consequence of Tenure for Strategic Decisions**

This subsection explores how participant board members viewed board tenure/experience to affect strategic decisions. In line with the purpose of this study, which is to explain how politicized governance mechanisms affect strategic decisions using an agency theory lens, the effect of tenure is explained.

#### *KPC Director Tenure, Conflict of Interest and Strategic Decisions*

The responses of participants regarding board tenure and conflict of interests were mixed. By statute (Stevens, 2012), board tenure on the KPC and its subsidiaries is limited to three years. Some respondents believed a longer tenure would reduce the problem of conflicting interest because, overtime, the board members would be more aware of the interests of the firm overall, particularly about their main principals (BM1, Sub B; BM1, Sub E). In this case, the Kuwait people, are represented by the Executive and the National Assembly (Stevens, 2008; Al-Sabah, 2009). Participants also believed that a longer tenure will allow board members more time to be more familiar with the managers that they oversee. This was perceived to lead to a lessening of conflict, as the more board members were familiar with, and knew the strengths and weaknesses of each other, and the interests they represent, the easier it would be to work with each other. However, other participants were of the opposite view. They felt that a prolonged tenure on the board, beyond the three years' statutory limit, would lead to entrenchment (BM2, Sub A). That is, they felt that too much length of tenure would lead to a situation where board members would become difficult to replace, since they may have acquired so much influence with other members of the board and with the executives that they are appointed to oversee, that replacing them would be difficult. This entrenchment may result

in the priority of directors changing, from carrying out the oversight function that is their primary role, to laying too much emphasis on promoting their own interests.

These opposing points of view are contrasted further, with existing literature. The belief that an extended tenure, beyond the three-year statutory limit, would be beneficial in reducing the problem of conflict of interest, finds support in Tosi, Katz & Gomez-Mejia (1997). Considered as a problem of agency, that study found out that the decisions of members with a longer tenure is more consistent with the welfare of the principal, than a shorter term. This is possible because, overtime, the directors become more in tune with, and acculturated with, the culture and values of the organization (ibid). The belief that the length of tenure is conducive to the quality of the director function, also finds support in Vafeas (2003). That study suggested that a longer tenure for directors often had the advantage of increasing their expertise, as they had much more time to deepen their knowledge of an organization. This increased knowledge of the organization, that long serving directors attain, and the increased knowledge of, and familiarity with their fellow directors, was posited to be beneficial to their role as directors.

However, the same study also suggested that the length of tenure led to a deterioration of director expertise (Vafeas, 2003). This was posited to result from an over familiarity with other members of the board, and with the managers that they were supposed to have oversight functions over. This is in keeping with the findings of this study, that show that some members of the board of the KPC and its subsidiaries, felt that an extended stay on the board would lead to overfamiliarity with other directors and with senior managers of the firm. This, they felt, would have the consequence of entrenchment, leading them to make strategic decisions that may be beneficial to their principals, whether the Parliament or the Oil Ministry, themselves and certain senior managers, and not in the overall interest of the KPC. In contrast, the belief of some directors of the KPC, in the benefit of a lengthy tenure on the board of the KPC beyond the statutory three-year term limit, is in line with the findings of prior studies of tenure in boards

of directors that have been conducted through the lens of agency theory (Dalton et al., 1998; Nyberg et al., 2010; Pugliese et al., 2009; Sorensen, 2000).

### *KPC Director Tenure, Information Asymmetry and Strategic Decisions*

The findings of the study indicate that directors perceived that the longer their tenure on the board(s), the better would be their understanding of the Kuwaiti oil industry, and the workings of the KPC. This would make it harder for them to be misinformed by other board members who possess more industry experience than they do. It would also reduce information asymmetry in the relations of the directors with the senior executives that they oversee, who have had, in some cases, decade long experience. The directors felt that the disadvantage in knowledge that they faced, compared to directors representing other interests, and the senior managers being supervised by them, could only be countered by possessing greater knowledge themselves, about the company and the industry. The interviewee directors felt that this greater knowledge, which would impact on the strategic decisions they made, would come about by having longer tenure/experience on the board.

In addition to this, directors also felt that the longer they worked together with other directors on the boards of the KPC and its subsidiary companies, the more they may understand the inner workings of the various subcommittees that report to the board. This suggests that the increased quality of information available, would lead to more informed strategic decisions (Pugliese et al., 2009). That is, the various subcommittees that are delegated to the board, to oversee various functional areas, report to the board as a whole. Understanding their purpose, and their reports, is enhanced over time through participation in decisions that are made on the basis of the information that they provide. This participation in the making of strategic decisions, was felt by the respondent directors to have the effect of also improving their



strategic decision-making, over time. Respondents felt that the more time they spent participating in the making of strategic decisions, the better the quality of the strategic decisions they made.

This finding discussed above, that the length of tenure helps reduce asymmetry of information finds support in Hillman and Dalziel (2003). That study found that directors' length of service is a resource to organizations, relating it to financial indicators such as return on asset. However, other intervening variables may also have accounted for an improvement in revenue over the time period considered, in addition to the length of tenure/experience of the directors.

In summary, the findings of this study suggest a contrasting view regarding how directors of the KPC viewed the effect of their length of tenure on the board, and the efficacy of strategic decisions, in terms of the agency problem of conflicting interests within the board, and with the senior managers they oversaw. On the one hand, they felt that by serving for longer periods, they would have greater knowledge of each other's interests and the interests of the senior executives that they oversaw, and therefore, would be able to make better decisions regarding them. On the other hand, some directors felt that a longer tenure would result in overfamiliarity with the managers they oversaw, leading to entrenchment, with decisions made that are self-serving, and not in the overall interest of the firm. However, regarding the effect of tenure on asymmetry of information, findings were in favour of lengthier tenures for board members. The longer tenure was suggested to result in greater familiarity with the KPC as an organization, and the Kuwaiti oil industry, in general. Longer tenure would also result in greater familiarity with the workings of the supervisory committees, and the functional information about the KPC that they provide.

The implications of the effect of tenure/experience for alignment and strategic decisions, in the KPC would be discussed in Section 5.4.

### **5.2.2 Perceived Consequence of Altruism/Patriotism for Strategic Decisions**

Altruism, in this study, is conceptualized in relation to patriotism. That is, participants' perceptions of the effect of their feelings of patriotism towards Kuwait as a country, are considered as perceptions of altruism. In this light, the study findings were intriguing. Members of the boards of directors of the KPC and its subsidiary companies, were of the perception that a strong sense of patriotism towards their Country significantly reduced conflicts among themselves. Some respondents were also of the view that patriotism should not be such an important consideration, because director remuneration and compensation packages were so generous that a director did not need the excuse of patriotism to be motivated to carry out his role. These perceptions of altruism/patriotism, and its impact on strategic decisions made by the boards of KPC and its subsidiaries, are explicated further, below.

#### *KPC Director Altruism/Patriotism, Conflict of Interest and Strategic Decisions*

The finding that directors perceived their patriotism/altruism towards Kuwait to be have a significant effect on their strategic decisions, offers interesting theoretical speculation. The finding suggests, in agency terms, that agents may downplay their personal interests when they act together within a common framework of altruism/patriotism towards a larger overall interest. However, the common view of agency presumes that agent-agent and principal-principal behaviour is motivated by self-interest (Young, Peng, Ahlstrom & Bruton, 2002; Eisendhardt, 1989; Pugliese et al., 2009). Patriotism involves putting one's country's interest first, giving it priority, before considering one's own self-interest. It may involve the sacrificing

of one's other responsibilities, such as responsibilities to family, friends and competing business or professional interests. Patriotism may also mean the sacrifice of material gain that would accrue to one, personally. Yosifon (2016) also make the point that there is a tension between the desire to be patriotic, and the desire to act in one's self interest.

The directors' perceptions unanimously showed that they believed that their loyalty to the interests of Kuwait, would supersede any considerations that they may have towards benefiting themselves. This view however, is at odds with Jensen (1994), which is of the opinion that patriotism/altruism does not make an agent perform better, but rather adequate compensation would. This aligns with the view of the lone director, who did not clearly speak in favour of patriotism as a motivator that would align the interests of board members with the broader interests of the KPC (BM4, Sub C). This director believed, with the substantial remuneration being paid to the directors of the KPC and its eight subsidiaries, it was not necessary to appeal to their patriotism.

Overall, the perception of the directors of the KPC, that loyalty towards their country would significantly affect their strategic decisions, is one that is supported by the scholarship of Yosifon (2016). That study takes the position that directors' patriotic conscience will have an influence on their corporate decision making.

#### *KPC Director Patriotism, Information Asymmetry and Strategic Decisions*

The findings of this study suggest that directors' feelings of patriotism towards Kuwait, will resolve the tension they feel between acting in the interests of their own principals (those to whom they owe their appointments) and acting in the interests of the KPC. This notion has implications for asymmetry of information. Directors felt that patriotic considerations would ensure that committees tasked with oversight functions for functional areas, such as accounting,

operations and remunerations, will provide truthful information for the deliberations of the rest of the board (BM1, Company X). This is in keeping with the findings of Schulze, Lubatkin and Dino (2000) regarding altruism and agency in firms.

The implications of the effect of altruism for alignment of interests and strategic decisions in the KPC, would be discussed in Section 5.4.

### **5.2.3 Perceived Consequence of Independence of Directors for Strategic Decisions**

Externality of membership of the board (Bathala & Rao, 1995; Clark, 2007) was perceived by directors of the KPC and its subsidiaries, to have a significant effect on their strategic decisions. In context, independence is conceptualized as referring to directors that had never worked in the oil sector, or were ex-oil sector workers that had retired, and were then made board members (BM1, Sub C). On the one hand, directors felt that external directors were highly beneficial to the firm, as their involvement meant political cover (BM1, Company X). That is, external directors, in this instance appointed by the Parliament and the Oil Ministry, were perceived to bring with them political support, or cover, that would be beneficial to the firm. This view finds support with the work of Pfeffer and Salancik (1978). That study posited that the board is a mechanism for accessing resources from the external environment, and that the presence of 'external' directors was crucial for it to achieve this purpose. Respondent directors felt that their independent counterparts were more focused on the overall objectives of the KPC, and not as liable to be entrenched and to put other affiliations first (BM2, Sub C). This perception is in keeping with Ruigrok, Peck and Keller (2006), who assert that lack of sufficient independence on the part of board members limits their effectiveness. This tendency results from board members putting the interests of the firm first, and not the shareholders they are responsible to. This is in line with the perceptions of the board of the KPC about their

external members. In this context, the external directors, if not sufficiently independent of the KPC board, are perceived to be likely to side with the interests of the managers they oversee, rather than the interests of the Kuwait people, which they are meant to uphold.

However, other directors felt that the board of the KPC should be more composed of board members from the subsidiaries, than externally. This is because they perceived that external directors may act as ‘spies’ for the external political interests that they represent. These external affiliations, which are the Oil Ministry and the Finance Ministry, have interests which their representatives on the board, in trying to satisfy, would cause them to wilfully misinterpret information (BM1, Sub C). These positions are discussed further below through an agency lens.

#### *KPC Director Independence, Conflict of Interest and Strategic Decisions*

The belief that independence of directors on the board of the KPC is beneficial in terms of its impact on strategic decisions, is in line with the view, that holds that external directors bring vital organizational resources to the company. One effect of this (Pfeffer & Salancik, 1978) is that sufficient independence of external directors will have implications for conflict of interest between the ‘external’ and ‘internal’ directors. If, on the one hand, directors are sufficiently independent, they are able to resist supporting the entrenchment of firm management; in this case the senior management, and the CEO of the KPC. On the other hand, if the external directors do not possess sufficient independence, they are liable to be strongly influenced by, and support, the entrenchment of the KPC management. Both outcomes may impact strategic decisions. Effectively, independent directors are likely to engage in decisions that will be more in the overall benefit of the KPC, because of their independence. That is, the

independence of the directors, itself, is what will allow them a free hand in taking decisions that would be in the overall interest of the KPC.

#### *KPC Director Independence, Information Asymmetry, and Strategic Decisions*

Elaborating further, using Pfeffer and Salancik (1978) postulates, one of the crucial resources that can be resourced by the firm through independent directors, is information. The better informed the directors of the KPC are, the abler they are to make valuable contributions and provide qualitative advice. Access to accurate information is necessary for effective decision making, as postulated by (Ruigrok et al., 2006). Also, the directors' perceptions about the beneficial effect of independent directors, is in keeping with the suggestion that, since strategic decision making involves the inclusion of different perspectives, the perspective brought by external directors would be a valuable ingredient (Forbes & Milliken, 1999). Timeliness of information is also crucial for effective strategic decision making. For information to count towards decision making, it has to be relevant to what is ongoing in the external environment, in order to allow the organization to adapt to conditions (Johnson et al., 2013). The directors' perceptions of the worth of independence in directors, in summary, finds direct support in Ruigrok et al., (2006, p. 1221): "Outside directors are a potentially rich pool of expertise. The involvement of outside directors in strategic decision making has the potential to enhance the quality of strategic decisions and improve a company's competitive position". The section on implications below, explicates the alignment implications that the perception of director independence has for strategic decisions in the KPC.

#### **5.2.4 Perceived Consequence of Director Recruitment for Strategic Decisions**

A meta-analysis of corporate governance in Kuwait's National Oil Company, posited that the selection of board members for the KPC and its subsidiaries in Kuwait, is strongly

influenced by the Kuwaiti custom of ‘Urf’, which, similar to ‘Wasta’, is the age-old tradition of patronage unique to certain countries in the Gulf (Aldossari & Bourne, 2014; Al-Sabah, 2009; Stevens, 2012). This is in line with the findings of this study, wherein directors perceived that the lack of clear cut criteria for director recruitment, often lead to the recruitment of board members that had no relevant skill sets for the role (CEO, Company X). This recruitment of unqualified board members was perceived to be based on political considerations, and not because of the potential usefulness of the new directors to the KPC. This perception has implications for strategic decisions in the KPC, as discussed below.

#### *KPC Director Recruitment, Conflict of Interest and Strategic Decisions*

In line with agency theory, the directors’ perception of the recruitment of their fellows that were unqualified, can be considered to lead to conflicts. Directors appointed for considerations that are mainly political, have allegiance to their sponsors, and in defending the interests of these sponsors, engage in disputes that affect strategic decisions. These disputes, by delaying the strategic decision process, due to the time spent in resolving them, have an adverse effect on performance (Pugliese et al., 2009; Shivdasani & Yermack, 1999). Also, this perception of the effect of unqualified appointments, or appointment solely based on political allegiance, can be explained by the fact that such appointees to the board may engage in much more ‘aggressive’ monitoring, and therefore increase the likelihood of conflict (ibid). Additionally, the expectation of vigilance, wherein board members are expected to be vigilant in protecting the interest of their principal, is an early postulate of agency theory (Fama & Jensen, 1983). However, vigilance without expertise, can lead to the kind of aggressive monitoring mentioned earlier, that leads to conflict, if it is not in line with interests of other members of the board (ibid).

Another explanation for the perception that appointing unqualified directors would affect strategic decisions, is that they may bring information that is not relevant, out of date, and not suitable, for deliberation at the board level (Walters, Kroll & Wright, 2008). More explicitly, it may be argued that appointing members of the board that are unqualified, at the expense of more experienced, more informed directors, constitutes an opportunity cost, at the expense of the KPC. This may result because of the lost, informed perspectives that suitably qualified outsiders may bring to strategic decisions in the KPC.

Alignment implications of these perceptions in respect of recruitment of directors for the KPC, will be considered in Section 5.4.

### **5.2.5 Perceived Consequence of Director Turnover for Strategic Decisions**

The turnover in board membership emerged as a major concern to directors, in terms of its effect on strategic decisions. They perceived turnover to affect strategic decisions because it affected how long board members were familiar with the objectives and vision of the KPC (BM3, Company X). A constant need to reorient new members about the strategy decided upon with a previous board, set back the process, in terms of time and resources. Specifically, when a new board was expected, the existing board members began to ‘slack’, putting off strategic decisions until the new board was announced (BM1, Sub 1). This is in keeping with research in corporate governance that establishes that the turnover on the board affects firm performance (Gispert, 1998). This longitudinal study related turnover rates on a board with the outcome of return on investment (ROI). The perception of the effect of turnover by the directors will be discussed further below, in line with the agency view.



### *KPC Director Turnover, Conflict of Interest and Strategic Decisions*

The perceived impact of director turnover in the KPC is in keeping with the postulate in agency theory that the longer directors work together, the more likely they are to find common ground regarding the firm that they serve (Westphal & Zajac, 2013). Working together for long periods of time has also been posited to strengthen social ties among directors, which in turn, makes it easier for them to come to consensus (Ali, 2014). This ease of reaching consensus may make it easier for the directors to achieve consensus over strategic decisions. Carpenter and Westphal (2001) can be considered to align with this perception, in its study of the effect of network ties on board involvement in strategic decision making. This reduction in conflict can then be proposed to impact on strategic decisions, as directors that are in agreement are more likely to make decisions faster. Westphal (1999) found a positive relationship between personal ties among directors, and the level of counsel and advice regarding strategic decisions. Closely related to this is the finding by Westphal and Bednar (2005), about how directors that have close personal ties, are abler to relate concerns they have over an organization's strategy.

### *KPC Director Turnover, Information Asymmetry and Strategic Decisions*

The finding of this study, about the perception of directors of the KPC and its subsidiaries about the significance of turnover, has some similarity with the finding about tenure/experience that was discussed earlier. Directors are a valuable resource (Pfeffer & Salancik, 1978). Their continuous changing, before the organization has benefitted from them, may therefore cost the organization in terms of information that they had gained from previous roles, being lost, before the KPC is able to benefit from it. Director ties to other institutions from prior roles are posited by Johnson, Schnatterly and Hill (2013) to serve as channels for beneficial information for the firm. Having served on the boards of other firms, they are able

to bring informational perspectives, and ties to these former places of appointment to bear in their new role. Reviewing their appointments before they have served long enough for the KPC to benefit from these sources of information about the external operating environment, may therefore be considered to have an adverse effect on strategic decisions in the KPC. Constant turnover may then be considered to have a negative effect on information asymmetry, and therefore strategic decisions.

The alignment implications for turnover and strategic decisions are discussed further in the implications Section 5.4.

### **5.2.6 Perceived Consequence of Director Political Affiliation for Strategic Decisions**

Findings revealed that the directors of the KPC and its subsidiaries consider their political affiliations to be significant for the strategic decisions they made. Although this impact was through other elements of board composition such as recruitment and turnover, its overall significance, to the respondents, deserves discussion. This is because one of the motivations of the study is an explanation of how the politicization of the governance of the KPC has affected its performance (Al-Sabah, 2009; Stevens, 2012).

As noted by a respondent (BM2, Sub D) the Oil Minister, who is also the Chairman of the KPC, has a vested interest in appointing as many members of his party to the board as possible. This is in keeping with the Kuwaiti culture of Urf, whose impact would be discussed next. However, this tendency to give priority to the members of one's party in appointments to the board of the mother KPC company and its subsidiaries, has the effect of having unqualified appointees sitting on the boards.

An additional perception about political affiliation that was expressed, was about the consequences of the political pressure the Oil Minister was subjected to. As Chairman of the

board, the Oil Minister is a public appointee of the Kuwait Parliament, and ratified by the Executive. The pressure from parliament for example, resulted in the cancellation of a two-billion-dollar downstream project, simply because the minister/chairman's backers in parliament felt that they would not personally benefit from it (BM1, Sub D). Another example is the decision of a minister/chairman to appoint eight new members who had no perceived expertise or experience that would be beneficial to the firm (BM3, Sub D).

From a wider perspective in governance, these perceptions are in line with studies that show that highly politicized boards affect firm performance (Shleifer & Vishnu, 1994). Menozzi, Guterrez-Urtiaga & Vannoni (2012) in investigating board politicization in the context of Italian SOEs, also made similar postulations. The perceived effect of politicization on decision making is then considered below, through an agency lens, in terms of the conflicts of interest that may arise, and asymmetries of information that may occur.

#### *KPC Director Politicization, Conflict of Interest and Strategic Decisions*

Political pressure on the board, in terms of appointments to it, and tenure on it, may be expected to have a direct effect on strategic decisions. This is because by their nature, strategic decisions are made by more than one actor, and have significant and long-term consequences (Child et al., 2016). The process of reaching strategic decisions is itself political, as various competing interests have to be agreed on and reconciled (Mumford & Pettigrew, 1975). Politicized board members will therefore bring even more complexity to this process. This is through the addition of even more interests, to what has to be considered (Child et al., 2016). It has been postulated that such political behaviour can cause conflict to arise, as people, in playing 'political games', act to subvert formal authority, or each other (Mintzberg & Waters, 1985). As put in a review by Child, Elbanna and Rodriguez (2016, p. 4) regarding politicized

decision-making “political behaviour in decision making seeks to get others to ‘do what we want’ even when they might not elect to do so”. Regarding the agency problem of conflicts of interest arising within the boards, it may be expected that bringing more external interests for consideration will add to the likelihood of conflicting interests occurring, and therefore affect the strategic decisions that have to be taken by the boards. This is discussed further, below.

### *KPC Director Politicization, Information Asymmetry and Strategic Decisions*

The perception of the effect of politicization on strategic decisions can also be analysed in terms of its implications for information asymmetry. The game playing (Childs et al., 2016) that accompanies political behaviour on boards, wherein directors engage in acts to protect and project their power interests, has effects on the availability of information for strategic decisions. When directors withhold relevant information, to protect their interests, it may be expected that this would have a negative effect on strategic decisions, because the full picture may not be known. On the other hand, when directors supply information that is not accurate, to protect their political influences by influencing decision outcomes, it also has implications for strategic decision quality (Pettigrew, 2014; Pfeffer, 1981).

The alignment implications of the perceived impact of politicized directors on strategic decisions are explored in Section 5.4.

### **5.3 Perceived Consequences of Board Leadership Structure in the KPC and Subsidiary Boards**

Participant board members identified four elements regarding board composition as significant: role duality, cultural influences, incentive schemes and monitoring/voting. These will each be discussed in terms of their perceived efficacy on strategic decisions. That is, their consequence in terms of conflict of interest and asymmetry of information, will be discussed in turn.

#### **5.3.1 Perceived Consequence of Role Duality for Strategic Decisions**

In terms of duality, the perceptions of members of the KPC's board and those of its subsidiaries are mixed. In context, duality is represented by the Chairman of the board also serving as the Oil Minister (Krause et al., 2013; Shleifer & Vishnu, 1994). Duality is also represented by the CEO of the KPC serving as Deputy Chairman, and thirdly, by Deputy CEOs of one subsidiary serving as board members of sister subsidiary companies of the KPC (Semadeni & Cannella; Stevens, 2012). Some respondents felt that the Oil Minister, also serving as Chairman of the board, was beneficial to the KPC because of the political influence it guaranteed for the board with the Executive and the National Assembly. However, others felt that the sector was better off being protected as much as possible from political influence represented by this duality (BM5, Comp X; BM3, Comp X). Regarding the CEO, also serving as Deputy Chairman, findings were also mixed, with respondents in support because the Chairman needed a technically skilled deputy in his absence, and with some respondents not in support, because of the paradox of the CEO monitoring himself as a board member. The perceptions of board members of the impact of these three scenarios on strategic decision making, are examined through an agency perspective below.

### *KPC and Subsidiary Company Role Duality, Conflicts of Interest and Strategic Decisions*

The mixed perceptions of interviewee directors towards CEO duality, is reflected in the literature on the effect of duality on firm performance (Krause et al., 2013). The early position of agency theorists that role duality will result in conflicts of interest, has begun to be modified and more recent studies have shown more nuance, identifying where duality may reduce conflict (Krause & Semadeni, 2013; Lorsch & MacIver, 1989).

It may be argued that duality in the case of the KPC where the Chairman of the board is also the Oil Minister, can help reduce conflict, because as Oil Minister the Chairman already has an insider knowledge about the interests of the Executive and the National Assembly, and is in a position to express this to other members of the board (Al-Salam, 2009; Stevens, 2012). This may anticipate potential problems with the assembly and the Amirati (executive), when seeking their approval for strategic decisions. However, it may be argued that this situation of duality also has drawbacks, because it leads to further politicization of the board by including more interests that have to be taken into account, and increasing the likelihood of conflict among directors, with repercussions for strategic decision making (Childs et al., 2016).

The negative perception of interlocking directorships amongst the subsidiaries also has implications for conflict. Interlocking directorships may lead to entrenchment, as directors engage in self-perpetuating moves (Eisenhardt, 1989; Mizruchi, 1996). Following this line of thought, increased conflict will impact strategic decisions, causing delays, disruptions and constant revisions (Pouryousefi & Frooman, 2017).

### *KPC and Subsidiary Company Role Duality, Information Asymmetry and Strategic Decisions*

The findings regarding perceptions of directors about role duality have implications for information asymmetry. Positive perceptions about role duality are explained by the fact

that when directors bridge two board roles, they can bring informational perspectives from one role to another. For example, the Chairman of the board of the KPC brings informational perspectives from his role as Oil Minister, that can have a positive impact on the information mix available for strategic decisions. This is supported by the findings of Brickley, Cole and Jarrell (1997), about how separation of roles can reduce the effectiveness and cost of informational flow. On the other hand, when a dual role holder engages in power play, with the intention of influencing outcomes in their favour, it may have a negative effect on strategic decisions. Duality can then lead to a reduction in the quality of, and amount of, information available for strategic decisions when a dual role holder withholds information, or supplies inaccurate information to influence outcomes in their favour (Krause et al., 2013).

The implications of the perceptions of directors of the KPC and its subsidiaries for alignment and strategic decisions, will be explored in Section 5.4.

### **5.3.2 Perceived Consequence of Cultural Influences for Strategic Decisions**

The cultural context was perceived by respondents to have a significant effect on strategic decisions. Culture impacted on relationships between directors, and relationships between the board and the overseeing bodies (Aldossari & Bourne, 2014; Stevens, 2008). In particular, the age-old Kuwaiti custom of Urf, which places emphasis on personal and family ties, was perceived to be particularly important. Wasta, the ‘negative’ component of Urf, was felt to be particularly damaging, as it promoted undue influence as a result of nepotism (Aldosaari & Bourne, 2014; Barnett, Yandle & Naufal, 2013). In particular, when members of the National Assembly, through their nominees, caused the employment of persons who were incompetent and unqualified for the positions that they occupied (Stevens, 2008). This has

caused, specifically, the middle managerial level in the KPC and its subsidiaries to be staffed by ineffective personnel.

However, some aspects of culture were viewed to have a positive impact (BM1, Sub D). Diwaniyas, or local informal gatherings, were a means of sounding out policy before enactment (Stevens, 2008). They also allowed board members to access informal information about personnel that had a bearing on the information they presented to the board (BM1, Sub B). The impact of cultural influences on strategic decisions are explained below, through an agency lens.

#### *KPC and Subsidiary Board Members, Cultural Influences, Conflict of Interest and Strategic Decisions*

This study found that directors perceived that Wasta negatively affected strategic decisions, when the decisions concerned areas of strong interest to directors and senior managers. This happened because the emphasis on meeting obligations to Urf, or political and familial ties, often meant that there were too many competing interests. This effect of Wasta, seen as the dark side of Urf, is supported by Barnett, Yandle & Naufal (2014), which found Wasta to be a source of nepotism, cronyism and undue favouritism. Wasta was posited to be a mechanism that enables decisions on personal connections instead of merit (Aldossari & Bourne, 2014).

Conversely, the perception of Diwaniyas as beneficial aspects of culture can be explained because they function as a mechanism that allows decision makers to informally gauge reactions to proposed policy before enactment. Diwaniyas allow potential decisions to be sounded out, and better knowledge of other actors to be obtained, reduces the likelihood of



conflict. This is because potential areas of conflict are identified beforehand, and anticipated, before formal sessions on strategic decisions (Stevens, 2008, 2012).

### *KPC and Subsidiary Board Members, Cultural Influences, Information Asymmetry and Strategic Decisions*

The cultural practices of *Wasta* and *Diwaniyah* can be expected to have implications for the agency problem of asymmetry of information. In terms of the nepotistic practices brought about by *Wasta*, when unqualified personnel are charged with providing information for strategic decision making, it reduces decision quality. If they are charged with execution of strategic decisions, their incompetence also leads to negative outcomes (Child et al., 2006; Ghabra, 2014).

Regarding *Diwaniyah* on the other hand, the unique opportunity it provides for informal information gathering, reduces asymmetry by enlarging the informational perspectives that are taken into account for strategic decision making (Al-Naser, 2001; Pfeffer & Salancik, 2008; Stevens, 2008).

The perceived impact of cultural practices on strategic decisions in the KPC and its subsidiary companies has implications for alignment, which are explored in Section 5.3.

#### **5.3.3 Perceived Consequence of Incentive Schemes for Strategic Decisions**

This study found that directors of the KPC and its subsidiaries, perceived that the incentives they received for their service, had an impact on their engagement with strategic decisions (Fan, Wong & Zhang, 2007). They were particularly concerned with the influence of external political actors on their incentive schemes. Parliamentary pressure, that is, pressure

from the elected body of representatives, often meant that their compensation packages were tampered with. The directors felt this to be unfair, as serving on the boards of the KPC and its subsidiaries was very demanding, in terms of the requirements of time, energy and the need to sacrifice relationships with their families (BM3, Sub C). Directors also felt that adequate compensation packages would make it less likely that they would resign voluntarily, since they will consider themselves well rewarded for what they have given up for their service (BM2, Sub B). These perceptions are examined next, from an agency theory perspective.

*KPC and Subsidiary Board Members, Incentive Schemes, Conflict of Interest and Strategic Decisions*

It may be expected, in accordance with the agency perspective, that a better motivated board, in terms of remuneration, would result in lessened conflict among board members (Krause et al., 2013). This is because much of the potential for conflict, which is centred on directors securing their own financial interest, would be eliminated (Eisenhardt, 1989). A better motivated board in that sense, may therefore be able to focus better on the task at hand, of strategic decisions.

Also, if directors are less likely to leave as a result of adequate compensation, then the benefits built up from working together for a long period of time is not lost. These benefits can impact strategic decisions, as ties developed from familiarity can be used to foster the process of making strategic decisions, when directors can go beyond their conflicting loyalties to external principals and find common ground in the overall interest of the firm.

## *KPC and Subsidiary Board Members, Incentive Schemes, Information Asymmetry and Strategic Decisions*

The fact that resignations due to perceived inadequacy of remuneration, would mean loss of informational perspectives, makes this finding to be important. Directors leaving would take their expertise developed in committees, and their relational ties with them when they left. This would have an impact on strategic decisions, as the information pool available for effective decision making is made smaller when experienced directors leave (Pfeffer & Salancik, 2008).

The implications of incentive schemes for alignment in the KPC, will be explored in Section 5.4.

### **5.3.4 Perceived Consequence of Monitoring and Voting for Strategic Decisions**

This study found that directors of the KPC and its subsidiary companies, perceived their monitoring activity and voting patterns to have a significant effect on the strategic decisions they made (Ingley & Van der Walt, 2001; Lipton & Lorsch, 1992; Schmidt & Brauer, 2006; Westphal & Fredrickson, 2001). The participant directors were unanimous in their perception of the efficacy of the system evolved for monitoring the implementation of strategy, known as the ‘Gate system’ (BM2, Sub C). However, for voting, the system in place where the vote of the chairman on strategic decisions is considered the deciding vote, when the vote is hung, it was perceived by participant directors to be ineffective. That is, when the board was evenly split regarding a decision, the chairman’s vote decided the issue. Participant directors perceived that this increases the possibility of political interference, with the chairman being liable to pressure from the Executive or the Parliament (Chairman, Sub C).

### *KPC and Subsidiary Board Members, Monitoring, Voting and Strategic Decisions*

In terms of their perceived impact on strategic decisions, responses suggested that ineffective monitoring may increase the chance of conflicts arising from the unchecked formation of coalitions. It is also intriguing that responses also suggest, that participants perceived that effective monitoring and voting systems may reduce the complexity of information available for decision making, and reduce lack of cohesion between directors. This is because the joint activity of monitoring senior management requires that directors interact with each other over time. This engenders familiarity with one another, and may lead to an alignment of interests over time, and a willingness to work together despite differing allegiance to external interests. This finds support in Lipton and Lorsch (1994), who posit that a lack of cohesiveness among the members of a board, limits the effectiveness of the board, since members are unable agree over strategy and have open discussions about ideas.

In contrast, the negative perception of board members about the chairman's veto vote and its potential effect on strategic decisions, discussed in the previous paragraph, finds support in Bonazzi and Islam (2006) who relate CEO dominance, monitoring and financial performance. If the chairman utilizes his veto power to satisfy his allegiance to external political influences, whether from the Parliament or the Executive arm of government, it may have a negative impact on strategic decisions. The consideration of the chairman may be the interests of these external influences, and not the overall interest of the KPC and its ultimate shareholders, who are the Kuwait people.

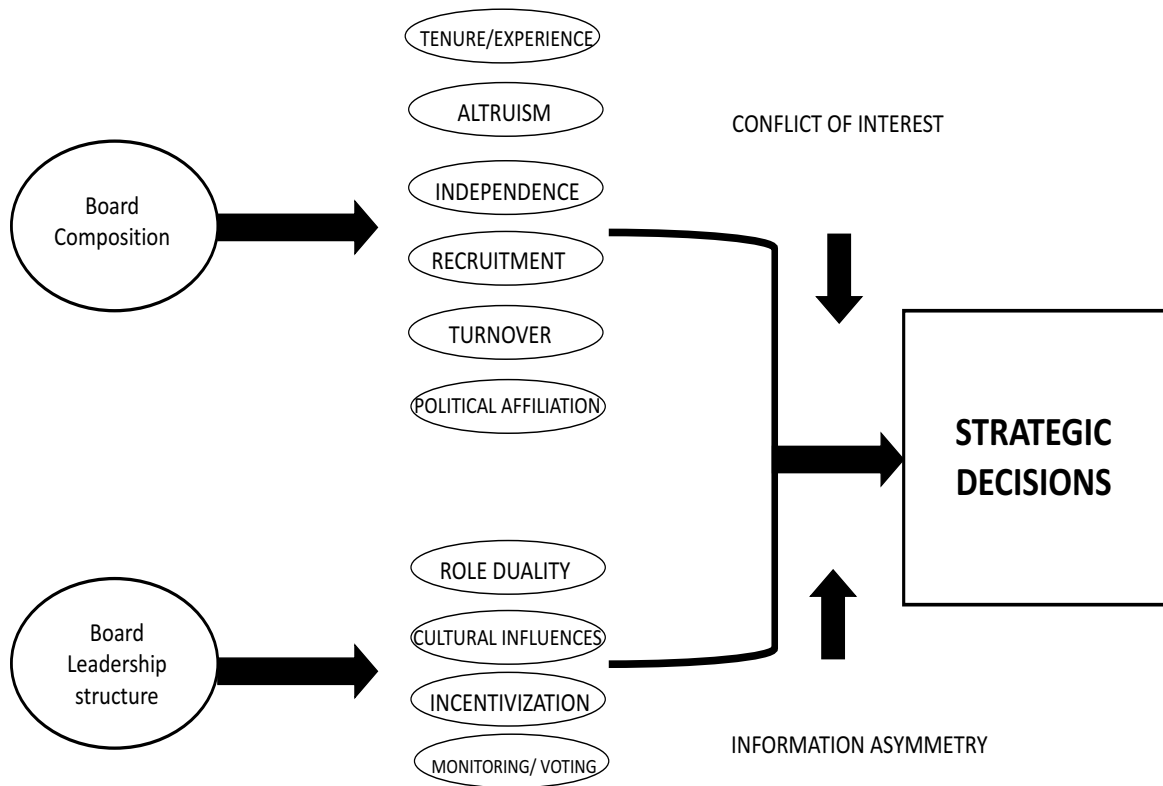
*KPC and Subsidiary Board Members, Monitoring and Voting, Information Asymmetry and Strategic Decisions*

The finding that frequent monitoring is perceived to lessen the complexity of information processed since joint service on committees leads to familiarity with each other's perspectives, and consequently, alignment of interests over time, has implications for strategic decisions. The complexity of the information that members of boards must attend to in the limited time that they have available, has been noted (Nicholson & Newton, 2010). If board members understand each other's conflicting perspectives, and the information that serves as the raw material for the strategy making process, this understanding may streamline the information that they are processing, and consequently aid in strategic decision making. On the other hand, if board members are not able to resolve the conflicts among them that arise due to the different external political influences they represent, and if they are not able to understand the information that is required for strategic decision making, overall organizational strategy may be adversely affected. This lack of appreciation of each other's perspectives, may reduce cohesiveness among board members, and consequently have a negative effect on consensus required for strategic decision efficacy (Lipton & Lorsch, 1994).

The implications of monitoring and voting, and information asymmetry for the KPC are discussed further in the next section.

In summary, this section of the chapter discusses the findings of the study regarding the perceived impact of board composition, characteristics and structure on strategic decisions in the KPC and its subsidiary boards. The tension between directors representing external political interests is viewed through an agency lens, with conflict and asymmetric perspectives. It forms the basis for the next section, which discusses the implications of these governance issues for alignment in the board of the KPC, and its subsidiaries.

**Figure 5.1** Conceptual Model for Impact of Composition and Structure on Strategic Decisions in the KPC.



Source: Author Illustrated

Figure 5.1 represents this study’s modelling of the effect of issues of composition and structure on the performance outcome of strategic decisions, as analysed from an agency perspective. The model shows how six compositional elements and four structural elements of the board governance mechanism, are perceived to affect strategic decisions in the Kuwait Petroleum Company. It specifically proposes that directors perceive their tenure/experience, patriotism, independence, nature of recruitment, turnover and political affiliations, to be crucial to the strategic decisions they make. It also shows that directors perceive role duality, cultural influences, incentive schemes and monitoring/voting patterns, as significant elements impacting on the strategic decisions that they make.

The implications of these perceptions, viewed through an agency lens, for alignment, are discussed below. These implications are also the basis for the policy recommendations made in the concluding chapter.

#### **5.4 The Implications of the Impact of Composition and Leadership Structure for Alignment and Strategic Decisions**

In the previous section, the perceptions of the impact of composition, characteristics and structure on strategic decisions were assessed using an agency theory perspective. This section explores perceived alignment implications of these elements of structure and composition, for strategic decisions.

Firstly, regarding tenure, this study had mixed findings. Some directors perceived that longevity of tenure leads to entrenchment, and therefore a lack of alignment between director goals and overall goals of the KPC and its subsidiaries, while another subset of directors felt that long tenure, by allowing directors to develop deeper ties with each other, and the senior managers that they oversee. Directors also felt that sufficient experience on the board will aid in judging strategic decisions, by allowing a director to see the need for projects to run concurrently. However, this need for coordination in strategic projects was not supported by some directors, who felt that when strategic projects were executed at the same time, they tended to cause asymmetry of information. This arises because directors were not focused enough on a project to judge the value of the information they were receiving about it.

Secondly, regarding altruism/patriotism, this study found that directors perceived that when they were motivated by feelings of patriotism to Kuwait, they were more likely to act in the interest of the overall society, than in the political interests that they are beholden to. They

perceived that this motivation would foster greater alignment by reducing conflict of interest, and asymmetry of information, thereby enabling better strategic decisions.

Thirdly, the study found that externality of board members had mixed perceptions from directors, regarding its implications for strategic decisions. On the one hand, directors felt that their more independent colleagues would bring more pressure regarding their external interests, which would lead to a greater lack of alignment in terms of strategic decisions. On the other hand, some directors felt that more professional external directors, being less entrenched, were more likely to approach strategic decision making objectively, and therefore were more beneficial in terms of goal alignment.

Also, the study found that directors were unanimous in their perception, that the basis of appointment to their ranks was important in terms of its implications for alignment of interests. They felt that when unqualified directors were hired, through procedures that were not transparent, they were more difficult to work with. This was because they did not have the requisite ability to participate in strategic decisions at the required level. Rather, they cause delays, thereby alienating existing directors.

Additionally, director perceptions about the rate of turnover in board membership regarding alignment, was unanimous. They felt that frequent turnover was not beneficial for alignment of interests and strategic decisions, as directors were changed, or resigned, just as they had begun to have an in depth understanding of the business and had begun to develop the necessary ties with other directors and senior managers that would benefit strategic decisions. The loss was felt to be a loss of resource.

Closely related to this, are the perceptions that directors had about political affiliations. This concern was unanimous, and it focused on the amount of influence that parliament had on the Oil Minister/Chairman on one hand, and the proportion of external directors that



represented external political influences directly on the board. These influences were perceived to reduce alignment by increasing the likelihood of conflict over strategic decisions and causing directors on committees to limit information sharing.

The findings of the study regarding perceptions of directors about the implications of role duality for goal alignment, were mixed. Some directors felt that when leadership roles were bridged, it would lead to a reduction in conflicts, as the individual spanning both roles had the advantage of bringing two different perspectives to decision making. Others felt that such a bridging of roles had negative implications for goal alignment, as it caused entrenchment and political power play.

Perceptions about cultural influences, also indicated directors' views about how it affects alignment of interests. The negative aspect of Wasta was perceived to contribute significantly to the appointment of unqualified personnel, on the boards and on the managerial staff. It was also perceived to be responsible for the manoeuvring that directors undertook to further their interests in terms of contracts bidding. These were felt to have negative implications for strategic decisions. However, aspects of Kuwaiti culture, such as Diwaniyah, were felt to be a positive for alignment, as they allowed directors to sound out the effect of policy before enactment. By providing alternative flows of information, they enrich the perspectives brought to strategic decision-making.

Unsurprisingly, this study found that incentives for directors were perceived as significant for their engagement with strategic decisions. Adequate compensation for their service, they felt, would reduce the likelihood that they would engage in contention in trying to influence decisions to materially benefit themselves, and those to whom they extended patronage. They perceived this to have a beneficial effect on their reaching agreement over strategic decisions.

Finally, the perceptions of directors regarding their monitoring/voting function, contained implications for alignment of interests. Directors felt that ineffective monitoring promoted a lack of alignment of interests, because it led to the rise of factions and coalitions that tended to act in their own interests. This promoted disharmony and conflict, led to asymmetries of information and reduced the likelihood that directors would reach consensus over strategic decisions.

## **5.5 Conclusion**

In summary, this chapter explains the perceptions of directors of the KPC and its subsidiary companies about the impact of composition, characteristics and leadership on strategic decisions, using an agency theory lens. An agency perspective allows a consideration of the highlighted problems of governance as one of agency; and reconciling conflict of interest and asymmetries of information expressed in these perceptions. Perceptions were discussed at length and supported by the existing literature of corporate governance, agency theory and governance in the Kuwaiti oil industry. In keeping with existing studies, perceptions of impact were both unanimous and mixed, regarding the elements of corporate governance focused on. The perceptions expressed by directors, also contained implications for aligning these conflicts and asymmetries. These were discussed and form the basis of recommendations that will be made for corporate governance in the KPC and its subsidiary companies, in Chapter 5.

## **Chapter 6 Conclusion: Implications of Governance and Agency, Recommendations, and Directions for Future Research**

This thesis aims to explain how issues of governance impact the strategy of Kuwait's National Oil Company, the KPC. The study specifically focuses on how board composition, characteristics and leadership structure impact strategy in the KPC. This study proposes that conflicts between two principals have been transferred to the board of the company, and becomes a proxy conflict between agents representing these principals. This conflict impacts on the strategy of the company. Perceptions of board members of the impact of these issues and their suggested solutions were analysed from an agency perspective. These perceptions of governance, were further grounded in the literature of agency theory, and suggested solutions viewed as alignment issues.

Specifically, Chapter One introduced the study, providing an overview of the field of corporate governance and the adopted lens of agency theory. It also provided an overview of the context, the KPC, and its governance issues. It sets out the aim of the study and the research question, in addition to providing an overview of the study. Chapter Two comprehensively reviewed the literature of corporate governance, with an emphasis on issues that may affect governance in the KPC. It also undertook a comprehensive review of the agency theory lens, exploring the current state of the literature, and how it may explain the governance issues that affect the KPC. Following this, a conceptual framework was set out, showing how an agency lens may explain how issues of governance affect strategy in the KPC. Potential gaps that the study may address in the governance and agency literatures were also highlighted. Based on this framework, the study's research design is presented and justified in Chapter Three. The study's ontological and epistemological positioning is justified, and how data collection and analysis were carried out, was explained in detail. The findings resulting from the execution of

the research design, and in answer to the research questions, are explained in Chapter Four, with appropriate data to support the assertions that are made. In Chapter Five these findings are further given theoretical underpinning, and implications for alignment explored.

This chapter completes the explanation of how issues of governance affect strategy in the KPC. It explains the consequences of these issues, for the KPC. It also lays out the contributions of the study to the discipline of corporate governance, and to agency theory. Following this, the implications of the study findings for corporate governance and policy in the KPC are discussed. This is followed by an outline of the limitations of the study, and suggestions for future research. The chapter concludes with reflections on the researcher's experience in conducting this study.

## **6.1 Conclusion of the Study**

Regarding the overall aim of this study, which is to explain how the politicized governance of the KPC affects its strategy, and therefore its performance, two major conclusions are reached.

Firstly, the impact of governance issues related to board composition and characteristics are explained. Following Johnson, Schnatterly & Hill (2013), this study moved beyond consideration of independence alone as composition, and incorporated characteristics peculiar to the Kuwaiti context to assess their impact on strategy. Six issues of corporate governance were found to impact on KPC strategy (tenure/experience, altruism, director independence, recruitment, turnover and political affiliation).

Longer tenure and experience may reduce information asymmetry, thereby having a positive effect on strategic decisions. However, longer tenure for directors may also lead to a lack of alignment between the interests of individual directors, arising from entrenchment. This

may also lead to a lack of alignment for strategic goals. Altruism, brought about by patriotism, also had an aligning effect for director interests, and therefore for strategy. This may arise because altruistic motives for directors limits the likelihood of conflict arising between them as a result of self-seeking activity. The effect of board independence appears to be mixed, with high externality considered negative for strategy because it may cause vital information to be concealed, out of fear of political repercussions. On the other hand, high externality was considered beneficial, as it may lead to increases in the information mix that makes strategy effective. Also, lack of transparency concerning recruitment was a major concern for strategy, since low director acumen will affect strategy making. The lack of transparency was also felt to encourage conflict among existing directors to secure appointments to the board of personally favoured candidates. Findings indicate that high turnover, in the role of chairman of the board and among board members themselves, had a negative impact on strategy, as directors did not stay on the board long enough to acquire the relevant knowledge and understanding to effectively contribute to the KPC's strategy. High turnover is also negative, because it does not allow board members sufficient time to build the interpersonal relationships that help them to align their personal interests for the overall interest of the company. Political influence, the characteristic that underlies all the other characteristics, was also found to be significant for strategy in the KPC. Both the chairman of the company and board members were often influenced by, and served as proxies to, external political forces, which had a negative effect on the collective agreement that is required for effective strategy.

Secondly, issues of board leadership structure and their impact on strategy in the KPC are explained. Following Pugliese, Bezemer, Zattoni, Huse, Van den Bosch and Volberda (2009) and Stiles (2001), the structure of board leadership, with an emphasis on duality in the KPC, was assessed through an agency lens for its impact on strategy in the KPC. Four issues

of leadership structure were found to be crucial (role duality, cultural influences, incentive schemes and monitoring/voting).

The findings for CEO duality were mixed. A merger of the CEO-Chairman role was perceived to be beneficial for the reduction of conflict, and information asymmetry, thereby allowing more consensus, and better-informed strategy making in the KPC. However, a separation of roles was also felt to be beneficial for strategy, as it would provide a check on the power of a single individual to influence the strategy process for his/her gain. Cultural influences, specifically Urf and Wasta, also indicated mixed findings in terms of their influence on strategy. A common culture served as a binding force for board members, thereby strengthening interpersonal ties, and reducing conflict, and therefore positively impacting strategy. However, certain aspects of Kuwaiti culture were found to be negatives for the strategy of the KPC. Excessive nepotism, or Wasta, affected all other issues of corporate governance, causing unqualified people to be hired, suboptimal projects to be encouraged in order to satisfy constituencies, and conflict among directors to satisfy political patrons. All of which were perceived as negative for the strategy of the KPC. Remuneration of directors was also considered significant for strategy, as directors had to be well compensated for the demanding nature of their role, in order to properly carry out their strategy making function. Effective monitoring, voting and management reporting systems were felt to reduce information complexity, and promote interpersonal relations among directors. However, carrying out these functions also involves a degree of conflict among directors, especially when political considerations also underlie proceedings. These two views imply a positive and negative impact on strategy respectively.

Alignment implications, suggested by directors, were also found for these ten issues of governance on the board of the KPC. Specifically, findings about the implication of the length of tenure for alignment were mixed, as a long tenure promoted alignment of interests, as

directors would be familiar with each other over time, while others felt that lengthy tenures would promote entrenchment and therefore be detrimental for alignment of interests. Unanimously, respondent directors felt that patriotism for their country induced them to align their interests. The level of externality, or independence, showed mixed findings for alignment. Some directors felt a higher number of external directors would lessen goal alignment, while others felt the increased information pool available would aid alignment, by reducing entrenchment. Unanimously also, directors felt that recruiting other qualified directors to the board was important, as it was difficult to work with team members that were not able to understand the issues being deliberated on. Similarly, directors were unanimous in their perception that high rates of turnover affected alignment, because board members did not spend enough time together to be able to harmonise their interests. Concern about political influence on the board was also pervasive. This was perceived to have a negative impact on alignment because it promotes conflict among directors that are acting on behalf of differing political interests. Adequate remuneration was also perceived to be beneficial for alignment, as well compensated directors were less likely to engage in conflict in support of personal financial interests. Finally, directors felt that carrying out their monitoring and voting functions would promote alignment because of the time spent together on committees. However, carrying out these functions would also negatively affect alignment, because they are inherently conflict ridden.

Considered together, these issues of governance, with their suggested alignment solutions, have implications that can be suggested for policy in Kuwait's National Oil Company. These implications are outlined in Section 6.3 of this chapter.

## 6.2 Contributions to Corporate Governance and Agency Theory

This study involved explaining how board members of the KPC, acting as agents of external political influences, contended with issues of governance which affected strategy. It recognizes that agency is not unilateral, but multiple, and it focuses specifically on the context of governance in Kuwait's National Oil Company. Focusing on the perceptions of board members themselves, rather than external metrics such as financial ratios and profitability, it takes their proposed solutions for goal alignment into account. By so doing, the study makes some contributions to the discipline of corporate governance and the agency theory perspective.

Firstly, the basic agency model is linear, with the agent assumed to be capable of opportunistic behaviour (Jensen & Meckling, 1976). However, this has been recognized as simplistic, as the relationship may not be linear, and there may be multiple agents (Hoskisson, Arthurs, White & Wyatt, 2013). This multiple agency theory postulated by Huskisson et al., (2013) focuses on principals, such as mutual funds acting as agents in themselves of smaller groupings of principals. By conceptualizing board members of the KPC as agents representing two external principals (the National Parliament, and the Executive or Amirati), and analysing their perceptions of the governance of the company, this study extends multiple agency theory. This is done by showing actual multiple agents in conflict with each other because of their allegiance to differing principals.

Secondly, Pouryousefi and Frooman (2017) propose principal-principal agency relationships, in criticism of the linearity of the existing approach to agency theory. This study contributes to this perspective by showing the effect of two contending principals on governance of the board of the KPC. In contrast to the focus in the Anglo-American setting, on the contention between two large principals, this study shows how two arms of government,



the executive and legislative, struggle for control of a Gulf country NOC. Thereby, it provides another context for showcasing the effects of principal-agency at work.

Thirdly, researchers in the discipline of corporate governance, have begun to challenge the view that CEO duality is to be taken as unilaterally negative. That is, the notion that joint CEO-Chairman roles are universally negative, in terms of governance, has been challenged as too simplistic (Krause et al., 2013). Following Krause et al., (2013) call for new contexts that show the benefits of duality, this study illustrates how duality is perceived by members of the board of the KPC as beneficial for governance. Regarding their specific circumstances, the chairman of the board is also the government appointed minister of petroleum, meaning that the head of one of the two principals, also oversees the board. In this capacity, the Oil Minister/Chairman was felt to counter the influence of the other major principal, the Parliament.

Also, by showing how the activity and structure of the board of the KPC affects a company outcome, strategy, this study answers calls for more in depth investigations of how antecedents of composition and characteristics affect firm outcomes (Pugliese et al., 2009; Stiles, 2001). Researchers have assumed a link between composition and characteristics, as well as duality and the presence of board committees, to organizational performance. This was done through data obtained from secondary and archival sources (Huse, 2005; Tricker, 1994). Rather than consider the board as a 'black box' or one entity (Stiles, 2001), to be correlated against other variables, this study explains governance in a board, from the perspective of the board members themselves. This access to individual board members, aided a more detailed representation of governance on the board level, as recommended by Pugliese et al., (2009) and Stiles (2001).

Lastly, the basic conceptualization of agency theory assumes opportunism on the part of agents, as mentioned in the first paragraph (Eisenhardt, 1989; Jensen & Meckling, 1976). This unilateralism has lately begun to be contested (Clarke & Branson, 2012). This study found that directors in the KPC perceived their patriotism for their country to be a unifier. Patriotism was perceived to reduce conflict among directors, promoting alignment, and having a positive effect on strategy making. By so doing, the study contributes to calls for more context specific, realistic applications of agency, that take altruistic motivations into account (Yosifon, 2016).

### **6.3 Implications and Recommendations for Corporate Governance in the Kuwait Petroleum Corporation**

The findings of this study have several implications that may inform policy in the KPC. On a more macro level, the problems of governance in the KPC are a result of political interference (Stevens, 2012). This is possible because of what is known as the ‘Founding Law’. It was enacted in 1980, and is the basis of the unique situation in Kuwait’s NOC, where the representative of the Executive, or Emir, is subject to veto from the National Assembly. Any changes to this law will require a change in the entire Kuwaiti political structure. So that either the National Assembly appoints the Government, or the Government, through the Emir, has total control.

However, on the company level, the following recommendations, drawn from the implications of this study, may be beneficial:

Firstly, the findings of this study indicate that directors believe that the KPC would benefit from a fixed tenure for the Chairman. That is, findings show that directors perceive that the constant turnover in the chairmanship role negatively affected the company’s strategy. The Oil Ministry and the Executive could collectively engage the Parliament for a minimum tenure

for the role of Oil Minister-Chairman of the KPC. The negative effect of the constant turnover is acknowledged by both principals (Ghabra, 2014; Stevens, 2012). This may induce legislation for a fixed term for the position, regardless of pressure from either principal, so that strategic direction may be sustained. The words of Nader Sultan (2002, cited in Stevens, 2012), a former CEO of the KPC, perfectly illustrate this issue:

“It is crucial that the oil minister stays in his post in a supervisory capacity as long as possible, because this means continuity of long term policies ..... If you ask any KPC official about this issue, he will tell you that he wants ministers to be stable in their posts. And if they cannot keep ministers in their posts, then they have to think of other solutions.”

Secondly, another governance issue that both principals agree is detrimental for the strategy of the KPC. is the fact that the recruitment criteria are deliberately kept unclear. Although the code of governance for Kuwait (the K Code) specifies that board members must have ‘qualifications, experiences and technical skills which are constituent with the company’s activity: p.2’, the specifics of this requirement are not clear. This lack of clarity allows the competing interests to be able to favour the appointment of their proxies to the board. Similar to legislation that will propose fixed terms for chairmen, this study recommends legislation specifically for recruitment into the board of the KPC. This is important because of the significance of the company to the Kuwaiti economy. This proposed legislation for clear recruitment criteria will ensure that directors are qualified. This will ease understanding among directors, promote cross understanding, and increase the chances of reaching alignment over strategy.

Thirdly, the K Code specifies that the majority of the board members must be non-executive members, with at least one being an independent member. It has a caveat, that independent members should not exceed half of the total number of the board. For the KPC, in

practice, the weighting of independent to non-independent members has been subject to the interests of the two principals, government and parliament (Stevens, 2012). This has meant that over some periods of time, the government has had more influence on the board, while at other times, the parliament has. To have balanced veto power, this study recommends that legislation be proposed that fixes the ratio of executive to independent directors, specifically for the KPC.

In addition, while the K Code in Article 11 specifies the responsibility of companies to put systems and mechanisms in place for the evaluation of the board as a whole, and individual members, the implementation may be improved on. The board is currently regulated by the SPC, representing the Oil Ministry (Al Atiqi, 2005). However, the focus of regulation has been concentrated on company spending (procurements and budgets). While the K Code requires a single annual self-evaluation, the board of the KPC may also benefit from an independent external audit. Such an external audit, in addition to considering published financial information, may also consider the member's perceptions of the company, such as this study achieved. These external evaluations model performance management, by showing to company management that the board leads by example. This also builds company culture, and sends signals of accountability to stakeholders, and is beneficial for the reputation of individual directors (Nicholson, Kiel & Tunny, 2012).

The final recommendation is an issue of concern to the researcher, as a female in a society that is patriarchal. It involves the implication of the fact that the board of the KPC and its subsidiaries is comprised almost exclusively of the male gender. Research on gender diversity on boards shows benefits from having females on the board, such as better board independence and a reduction of the tendency for group-think. Having more females in boards is also posited to promote better interpersonal relations and reduced recklessness in decision making (Sealy & Vinnicombe, 2012). This study therefore recommends legislation

guaranteeing women a specific number of director seats on the board of the KPC, for the benefits earlier mentioned, and in the interests of equity.

#### **6.4 Limitations of the Study**

Notable contributions have been made in this study to the discipline of corporate governance and the theory of agency, with significant implications for policy in the KPC. However, the study also had some limitations which are highlighted here. These limitations also inform the suggestions for future research in Section 6.5.

The first limitation is that a focus on the perceptions of the directors about their own activity, may lead to biased responses. People may not tell an interviewer everything they believe, or think.

This may be for various cultural or personal reasons. For example, in the Arabian Gulf, men may not be as straightforward with an interviewer of the opposite sex, as they are with their own gender. They may also not be as forthcoming as they would be with one of their own gender, because of the religious values they hold. This may vary in intensity across the Kuwait-Gulf context, but it is present all through.

Closely related to the first limitation is the fact that people do not have perfect recall from their memory. Over time, the ability to clearly recall events may reduce, therefore affecting the quality of responses from directors about events in the past. Motivations for certain actions carried out in the past, may also not be perfectly recalled by respondents, with implications for validity.

Thirdly, this study involved high level access to highly placed, very busy members of the board of a country's main corporate organization. The study greatly benefitted from this

high level access, producing very rare data about the actual perceptions of board members. However, the opportunity for follow up interviews was highly limited. Therefore, the researcher could not adopt the usual device in qualitative interviewing, of returning to respondents for a follow up interview. This is done to clarify responses to questions and to explore new ones. This, combined with the time limitations for a doctoral level study, may have an impact on data quality.

In addition, this study aimed to explain how the politicization of the governance of the KPC's board, affects its strategy. It is therefore limited to the Kuwait-Gulf context. Although this specificity has led to a detailed exploration, relative to the research questions, it also indicates a limitation. This is in respect of generalizability. The findings may not replicate in a setting that has different cultural mores to those of the Arabian Gulf.

Finally, although all the respondent directors had high fluency in English, local cultural mores meant that they felt much more comfortable speaking to a fellow Kuwaiti in Arabic. Capturing the specific meaning they were making in English during transcription was a challenge. The researcher often had to seek assistance from professional interpreters. This was successful; however, some meaning may have been lost in translation.

## **6.5 Recommendations for Further Research Directions**

The limitations highlighted in Section 6.4 are the basis of these recommendations for research that would extend the findings of this study.

Firstly, this study into governance issues from an agency lens, may be extended by designing it to be longitudinal in nature. Instead of a thematic analysis, the design may be changed, so that the making of a specific strategic decision, may be followed over time. The interaction of specific variables of composition, characteristics and leadership in relation to the

specific strategy, may then be studied as it evolves over time. Although this would involve particularly high level, ongoing access, it is feasible. Such a study would generate data that may enable even more detailed analysis, and conclusions of more depth. It will also reduce the limitation of having to rely on the recall of the respondents, which may be inaccurate. The researcher would observe events as they unfold in real time.

Additionally, future research may draw comparisons about the findings of this study and other contexts, such as the Chinese-Asian and African, where external politics also heavily influence public company boards. Although this study is specific to the GCC Arabian Gulf context, such a comparison may generate findings that will be more generalizable for research in governance.

Thirdly, this research aimed to explain how governance in the KPC is affected by external political influences. The boards of the subsidiaries were assumed to reflect the situation on the board of the mother company. However, the subsidiary boards also have some autonomy. Further research that focuses on the inner workings of these subsidiary boards may provide more depth to the findings of this study.

Finally, this study may contribute to research on women and governance on boards, by focusing on the two women on the board and analysing how their activity influenced the course of strategy making, in comparison with that of the men. This may contribute to the debate concerning whether the presence of women on boards affects performance generally. It may also highlight the experience of women in corporate governance in patriarchal societies (Sealy & Vinnicombe, 2012).

## 6.6 Conclusions

This concluding chapter of the thesis has reviewed the findings of the study. This study adopted the methodological practice of focusing on board members' perceptions of their corporate activity in relation to its impact on company strategy. This was done through an agency lens, which conceptualized the directors as multiple agents of two external political principals.

Findings suggested how tenure/experience, altruism/patriotism, board independence, recruitment policy, turnover and political influence affected the KPC's strategy. Findings also showed how issues of board leadership structure; role duality, cultural influences, incentive schemes and monitoring/voting, affected strategy in the KPC.

Contributions are made to corporate governance research and agency theory based on these findings. Multiple agency theory is extended, by conceptualizing board members as agents of two external political interests. The principal-principal perspective in agency theory is also enriched by showing how two external principals affect a board, using directors as proxies. This study also shows that CEO duality may have benefits that are specific to each context. The study also meets calls for more depth in investigating boards that account for what goes on within them, rather than treating the board as a unitary whole. This study also provides additional evidence for the view that directors may not be uniformly opportunistic, but can also be inspired by altruism/patriotism. The study also had significant implications that formed the basis of policy recommendations. These recommendations were proposed legislation for tenure, recruitment policy, external evaluation and women empowerment. The study also had methodological limitations, arising from the dependence on the memory recall of respondents, and their view of past events. These were highlighted, and were the basis of the suggestions made for future research directions.



This chapter concludes the study aimed at explaining how the politicized corporate governance of the Kuwait Petroleum Company impacts on its strategy, through an agency perspective.

## **6.7 Reflections on the Doctoral Journey**

My personal reflections on the experience of becoming a doctoral researcher, form the concluding part of this thesis.

Simply put, I would describe the doctoral journey as a roller coaster. An intellectual, as well as an emotional one. The process was, by turns, very satisfying, and also quite overwhelming. The highs of making new connections, and saying something new, were balanced by lows, when I felt so much uncertainty about the direction that my research was taking. This section is my attempt to communicate my internal state during this time.

My journey commenced with a great deal of ambiguity in terms of narrowing down my research focus, to what would be remotely relevant to corporate governance in my country's National Oil Company. As I reviewed the literature, I discovered a vast amount of diverse studies pertaining to many theories underlying the corporate governance field. Hence, my first main challenge was finding the theories that were remotely most applicable to my research context. For me, the Literature Review Course required for PhD students in the business school was very helpful, as it provided me with the initial skills and techniques required to critically review literature.

Once I felt that I was critically able to review the literature, I began identifying what governance issues existed in Kuwait's National Oil Company. That was the second challenge I faced. Due to the sensitivity of the oil sector, the information was not easily available, and the information that was available, was not explicit enough. The next step was pinpointing

what elements of the different corporate governance theories would be the most feasible in solving such issues. I found that agency theory was best at representing the issues of governance pertaining to the board. However, the type of boards discussed in the literature were of publicly owned companies, in Anglo American contexts. Very little literature found, pertained to state-owned contexts. Therefore, I decided to look at governance problems on the KPC's and its subsidiaries' boards, through the perspective lens of agency theory. As there exists a vast amount of literature on boards of directors, I decided to focus on board composition, characteristics and board leadership structure. So my research framework was born.

The next step was to design the most optimal way of capturing perceptions of board members of the impact of governance issues on the board's strategic decisions. The Advanced Qualitative Methods Course for PhD students proved very useful. It introduced all the main approaches, strategies and research designs which are used in qualitative research. As my research questions involved asking how and why, the most feasible way to answer these questions was conducting a qualitative study. First, I began exploring the different aspects within the different layers of the infamous research onion (Saunders, Lewis & Thornhill). I started by understanding the various research paradigms in order to be able to define under which paradigm my study pertained to. Again, as my questions ask how and why, I was going to be perceiving and interpreting the data, therefore I have adopted interpretivism as a philosophical standpoint. Grasping the meaning of ontological considerations was another bump in the road. I realized that most qualitative researchers positioned their studies within the interpretivist paradigm and hence used subjective considerations.

However, I had to do a significant amount of studying to grasp epistemology and ontology, and the positioning of my research. Though I had written a quantitative thesis as

part of the requirements of my MSc programme, it did not go in depth into areas of philosophical underpinning.

I was then faced with the challenge of executing my research design. I had considerable anxiety whether I would secure the data my study required. I knew that the data I needed for the study was quite sensitive, on the Kuwait context. In addition, I had some anxious thoughts about whether, given the sensitivity of the data, they would actually consent to be interviewed. And whether, if they agreed to participate, they would be forthcoming about the information they provided. They may hold back, not just due to sensitivity, but also because of cultural norms. Opposite genders tend to be a bit restrained in official interaction, in the Gulf context. However, I was determined to make the most of the high level access that I had been given. I had to draw on my innate knowledge of Kuwaiti culture to navigate these problems. I relied on my knowledge of behavioural norms, dressing norms and conversational norms. I also drew on knowledge from the RRDP training courses on elite interviewing and conducting interviews.

Having secured relevant data, I then faced the challenge of analysis. This was the most challenging period of my thesis. Going from holistic codes to final themes, involved going through the data over and over again. At the same time, I was also conducting an extensive review of the literature on governance and agency. Moments when I felt I was sure of my emerging themes, were alternated with moments when I felt I was in a dark alley, analytically. To cap it off, I had issues in my personal life, reflected on below, which I had to also resolve.

I felt much more confident when I began to see emergent patterns in my analysis. Discussing the findings felt like a validation, as I began to see how my findings were supported by existing literature. I began to see the light at the end of the tunnel, to put it metaphorically. I felt a real sense of achievement in making recommendations to policy for

the KPC, and I look forward to making a presentation in that regard. As a female, I look forward to making these policy proposals, especially regarding gender representation on the board.

In the midst of analysing and writing, I was able to teach at the Bachelor's and Master's level. I had prior experience of teaching in Kuwait, at the Bachelor's level, and in Arabic. The UK context, and teaching in English was greatly beneficial for me, as an educator. I also benefitted professionally from writing a paper on local content policy in the Iranian Energy Sector.

Personally, I began the doctoral programme five months after having my daughter. I greatly underestimated how much being separated from her would affect me. By my second year, I began to have panic attacks whenever I was informed about any issues concerning her. I found that I needed to see her every two months, at the minimum. Coupled with the research work, I felt under severe strain from the separation.

This journey has therefore been very eventful. I feel that I have grown as a human, a professional educator, a researcher and a mother. I have tested my limits and found reserves in myself that I did not know I possessed. This dissertation represents that personal and professional growth.

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## Appendix A: Interviewee Participants Table

Participants	Gender	Age	Tenure (Acc. Years of Board Experience)	Position	Background	Other Roles	Company Level	Variable
1	M	60	6	BM	OIL/IND ENG	-	SUB B	BM2, SUB B
2	M	62	4	BM	OIL/CHEM ENG	CEO	SUB C	BM2, SUB C
3	M	63	5	BM	OIL/CHEM ENG	DCEO	SUBD	BM4, SUB D
4	M	65	5	BM	OIL/PET ENG	-	PAR	BM5, COMP X
5	M	58	10	BM	OIL/PET ENG	-	SUB E	BM, SUB E
6	M	55	3	BM	OIL/CHEM ENG	DCEO	SUB F	BM1, SUB F
7	F	56	10	BM	OIL/PET ENG	DCEO	SUB A	BM2, SUB A
8	M	55	4	BM	OIL/PET CHEM ENG	DCEO	SUB D	BM1, SUB D
9	M	55	6	BM	OIL/CHEM ENG	DCEO	SUB B	BM1, SUB B
10	M	60	5	CHAIRMAN	OIL/IND ENG	-	SUB D	CHAIRMAN, SUB D
11	M	61	3	EX-BM	OIL/PET ENG	DCEO	SUB B	BM3, SUB D
12	M	50	12	BM	OIL/LAW	CEO	SUB A	BM3, SUB A
13	M	60	6	EX-BM	OIL/GEO	-	SUB A	BM1, SUB A
14	M	57	3	BM	OIL	DCEO	SUB G	BM1, SUB G
15	M	58	3	BM	OIL/PET ENG	DCEO	SUB B	BM3, SUB B
16	M	56	10	BM	OIL/CHEM ENG	DCEO	SUB C	BM1, SUB C
17	M	55	3	BM	OIL/MECH ENG	DCEO	SUB E	BM3, SUB E
18	M	52	5	BM	OIL/FINANCE	DCEO	PAR	BM6, COMP X



19	M	56	1	BM	OIL/ELEC ENG	-	SUB E	BM4, SUB E
20	M	50	3	BM	OIL	-	SUB C	BM4, SUB C
21	M	64	7	CHAIRMAN	OIL/PET ENG	DCEO	SUB E	CHAIRMAN, SUB E
22	M	64	15	BM/PET ENG	OIL	DCEO	SUB C	BM5, SUB C
23	M	58	3	BM	OIL/CHEM ENG	DCEO	SUB C	BM3, SUB C
24	M	61	2	BM	OIL/FINANCE	-	PAR	BM2, COMP X
25	M	54	3	DEPUTY CHAIRMAN	OIL/PET ENG	CEO	PAR	BM0, COMP X
26	F	55	5	BM	OIL/FINANCE	MD	PAR	BM3, COMP X
27	M	67	10	BM	OIL/PET ENG	-	PAR	BM1, COMP X
28	M	55	1.5	CHAIRMAN	BUSINESS	OIL MINISTER	PAR	CHAIRMAN, COMP X
29	M	54	7	BM	OIL/ENG	DCEO	SUB E	BM2, SUB E
30	M	63	6	BM	OIL/ PET ENG	-	SUB C	BM6, SUB C

## Appendix B: Sample of Interview Guide

### Semi-Structured Interview Questions for CEO/Deputy Chairman

- Demographics, Background, Criteria and Qualifications

1. What position do you hold on the Board?

Probes:

- How many years of professional experience do you have?
- How long have you been in your position?
- Where have you had any prior board experience? And for how long?
- What is your academic and professional background?
- How have you come to be CEO (Board Member)?
- What is your most recent board experience?
- What is your key role as CEO and deputy Chairman of the KPC? And what are the activities that characterize your roles?
- What is your favourite part about being in a leadership position?
- How do you deal with the pressure exerted on you from the public (Parliament) and governmental parties (Supreme Petroleum Council)?
- Can you describe a recent situation where your experience and skills were beneficial/put to good use, in deciding to deal with a certain issue brought in front of the board?
- 

2. How are board members chosen in the KPC?

- Is there an official criterion for choosing board members on subsidiary boards, and on the KPC board?

- What sort of challenges would you say this process/criterion has dealt with?
- If you were personally able to alter this process, what changes would you make and why?
- How does the board selection criteria impact the KPC's strategic decisions and strategic projects in your opinion? (If boards were assigned in a different manner, would that mean more appropriate people for the job and therefore more value and knowledge in a decision made?)
- How often is the board selected? Is there a maximum number of terms a CEO serves?

### 3. How do you define strategic decisions?

- What process and procedures do they go through up to execution of the decision?
- Who are the players in the process? And what roles do they play?
- What steps exactly does the board process undertake?
- What problems are commonly faced in this process? What have been the major problems in the past 5 years? From management? From board members of the KPC and its eight subsidiaries? From employees?
- What are your expectations from management in the decision making process?

4. Have there been any recent changes in the corporate governance structure on the decision making process? Why or why not? How has the structure changed over the past 5 years?
5. What is the KPC and its subsidiaries' Board of Directors' role when it comes to strategic decisions, and their associated projects?
6. What role do you, as a board member in this organization, play within strategic decisions and their linked strategic projects?
  - Do you help in developing or creating ideas?
  - Would you say your role is collaborative enough?
  - Do you simply participate or take a lead in conversations concerning strategic projects?
  - What conflicts have you faced in this role?

#### Defining Strategic Decision

7. What are the elements that separate a major decision from an ordinary decision?
  - During your tenure how did/do you determine which issues come before the board? Is there a size consideration, for example the amount of resources needed to be used, or the significance of the issue?
  - Was there a measurement/level of how unique or repeated the issue was?
  - Was there a threshold of risk involved in deciding whether the issue should be brought in front of the board?
8. Have there been any recent changes in the corporate governance structure on the decision making process? Why or why not? How has the structure changed over the past 5 years?

9. Three strategic decisions which took place within the last 5 years, were the establishment of the ‘‘Petroleum Services Company’’, the ‘‘AL Zoor Oil Refinery’’ and the ‘‘Clean Fuel Project’’, which of these decisions were you involved in? (If none, I will then ask them, him/her to recall a decision(s) themselves, or instead initially interview ex board members that were on the board at the time of the decision.)

- When were these decisions made? And by who?
- What processes did this strategic decision go through, to eventually be executed or implemented by one of the subsidiaries?
- Who sets the implementation plans? The KPC alone or did each subsidiary contribute to its own plan?
- How were different aspects of the decisions assigned, classified and brought down/distributed to the subsidiaries?
- How different was the process of each decision?
- How were the proposals from the subsidiaries that played roles in these particular decisions, assessed by the board? And how did you assess these proposals on how to go ahead with the plan of implementing these decisions? Who assessed them?
- What and how were the alternatives reviewed by you for these decisions, before deciding finally how the decisions were going to be implemented? Who reviews them?

10. What were the steps of action involved in reaching the decision?

- How were these issues of these three decisions first realized?
- Who came up with the issue? And does it make a difference whether the board knows or doesn't know who framed it?
- How were the possible solutions to deal with these particular issues evaluated and generated?
- Did the board vote on these types of issues which we have been talking about? What was the result? How did you know it was time to vote?
- Were there implicit/explicit allies on the board of the KPC?
- Was there an immediate consensus? Why or why not?
- After the decision was implemented, what were the major unexpected problems that the KPC faced? What were the main conflicts of interest in this part of the process? (For example, some people saying 'let's withdraw the decision' due to cost being higher than benefits or others saying 'let's keep it going' due to their own financial benefits, or the pleasing of certain political parties, or the fear of pressure by parliament.)
- What procedure was taken to minimize conflicts of interest that existed between the board of the KPC and its management? I know it's impossible to have no conflicts, we are all human it is part of our nature, but how would such an important organization of which the whole economy depends on, minimize this for the well-being of the country as a whole?

- Did these decisions get reviewed? Meaning did the board or management in this case ever look back at the decision to determine what was learned in the process? What was learned?
- Would you say, as Deputy Chairman, that all Directors put in equal amounts of effort in reaching a consensus? If not, what procedure, direct or indirect, was taken? (How did you, or generally do you, motivate board members' efforts?)
- How has this decision(s) been financed in comparison to another strategic decisions that took place during the time period?
- Finally, was the decision successful? And in what sense do you measure this success? Why or why not?

### Board Independence

11. To what extent would you say, was the board independent in making, supporting or opposing this strategic decision(s)?

- What conflicts, challenges or problems did/do board members, including CEOs and DCEOs, face with the Ministry/Minister of Oil? With the Parliament? With political parties? **(The questions seek to find out what conflicts are associated with the CEO being Deputy Chairman).**
- What should have been done differently, in your opinion as Deputy Chairman (and CEO), to reduce costs and increase benefits of monitoring board members and management?

- How has the efficacy of strategic decisions changed in the whole organization (2015) now that there are eight additional independent board members on the KPC's Board of Directors? Or how do you think this addition of board members on the KPC's board will affect the efficacy of strategic decisions in the Oil Sector (the KPC and its eight subsidiaries)?

### Conflict of Interest

12. What type of conflicts occurred upon agreeing on this strategic decision(s)? Between the KPC and its management? And between the KPC and the subsidiaries?

- How did the board of the KPC approach reducing differences (aligning interests) in reaching these decisions, and achieving consensus in board meetings, while the decision was being planned?
- Are there levels of conflict of interest that occurred in the execution of strategic projects which are common and those which are rare?  
Examples?
- How were the smaller, more general conflicts of interest avoided or minimized?
- Where there any delays in these three processes that were due to conflicts of interest of different parties? Internal or external? And what were their impacts on the efficiency of strategic projects?



- (Regarding the strategic decisions the interview participants decide to elaborate on): What conflicts of interest have occurred between the different individuals (principals and agents), and/or groups involved?
- Recall times when conflicting values took place between your board and the subsidiaries' board, during any of the different parts or phases of the decision? And between your board and management? (These are two cases of the principal agent relationship within the agency theory.)

13. What sort of challenges did you face within the formulating of strategic decisions, due to you holding two vital roles in the KPC, since you hold a spot on both groups, control and management?

- How did you deal with conflicts of interest that occur due to your dual position, personally and practically?
- How and to what extent did your dual role influence the decisions you agree on as board member, or make as CEO?
- What are the other cases of role duality which exist across the organizations' board? What impact do/did they have on efficacy of strategic decisions?

14. How has the decision been influenced by political parties' pressure, or pressure from the National Assembly? What role did this play in this particular decision(s)?

- What pressure has been exerted upon the Chairman/Oil Minister of which has been influenced by aspects and the overall direction of these decisions

### Monitoring

15. How did the monitoring of managers take place?

- What were the (indirect) precautions/schemes undertaken to align incentives of managers with those of you on the board, as you represent the best interest of the economy? As you are also from the management group, how do you evaluate this?
- What were the schemes undertaken to align incentives of board members in the KPC, and also in the subsidiary boards, with the best interest of the organization?
- Was a certain committee responsible for monitoring each of this/these decision(s)? Who was the committee composed of? And how did it carry out this particular role?
- How do you (the KPC board), deal with managerial opportunistic behaviour, if they act in their own self-interest and their actions are detected?
- What motivations are offered to board members and top management, to keep their interests aligned with those of the Supreme Petroleum Council?
- Would you say that having the CEO of the KPC as one of its board members, makes/made monitoring less complicated or does/did it negatively interfere with the decision making process, since control

and management are not separated? As you know most countries now are against duality.

Information Asymmetry

15. How was the information passed between you and the subsidiaries during the time frame since the decision was reached, planned and implemented?

- What are the common flaws with this system?
- How has information asymmetry (across board members and between board and management), influenced the efficacy of strategic decisions?
- What role has information conversation played between board members and management of the KPC? And between the KPC board members and subsidiary board members?

16. What was the relationship like between the KPC and your subsidiaries, during the process of the making of these particular strategic decisions?

17. Did/Do the KPC board members get effected by any unofficial lobbyist, internal or external, against any of this/these decision(s)? Explain what happened.

18. How do board members of the KPC and its subsidiaries vote on issues concerning a strategic decision?



## **Consent Form**

1. I have read, and had explained to me by Nour Alshamali,  
  
the accompanying Information Sheet relating to the project on:  
  
The Impact of Composition and Leadership Structure of the Board of Directors on the  
Relationship between Corporate Governance Structure and Strategic Decisions: A Case of the  
Kuwait National Oil Company
2. I have had explained to me the purposes of the project and what will be required of me, and  
any questions I have had, have been answered to my satisfaction. I agree to the arrangements  
described in the Information Sheet, in so far as they relate to my participation.
3. I understand that participation is entirely voluntary and that I have the right to withdraw from  
the project at any time, and that this will be without detriment.
4. I agree to the interview/session being video/audio taped.
5. This application has been reviewed by the University Research Ethics Committee and has  
been given a favourable ethical opinion for conduct.
6. I have received a copy of this Consent Form and of the accompanying Information Sheet.

Name: .....

Signed: .....

Date: .....

## Appendix D: Information Sheet

**Henley Centre for Engaging Leadership**

**Henley Business School**

University of Reading

RG6 6UD

*Phone:*

*Researcher (principal):* Nour Alshamali

*Email:*

*Phone:*

*Researcher (Supervisor):* Dr. Jelena

Kalyuzhnova

Dr. Abby Ghobadian

*Email:*

### INFORMATION SHEET

**Study:** “The Impact of Composition and Leadership Structure of the Board of Directors on the Relationship between Corporate Governance Structure and Strategic Decisions: A Case of the Kuwait National Oil Company’, seeks to explain how board composition, and how 2 slightly modified cases of role duality of a government monopolist parent company, influence the strategic decision making process and also influences the relationship between the parent company and its subsidiaries.

**Purpose:**

To understand how 2 mechanisms of the corporate governance impact strategic decisions and their associated projects, in Kuwait’s National Oil Company and its subsidiaries.

**How you and your organization can benefit from this research project.**

As a leader (board member) in the Kuwait National Oil Company, such as the aforementioned, your experiences are extremely necessary and relevant to this study.

**How can you and your organization benefit from this?**

Participation may help you to reflect on your experiences as a board member in a state-owned monopoly. Its findings can aid your organization in achieving a better insight into the corporate

governance mechanisms underlying your board structure. Thus enhancing your non-financial performance.

**What does participation entail?**

You are under no obligation to participate and you may withdraw at any time without detriment. You would be required to take part in an interview session. You will be recorded, and once the recording is transcribed, it will be securely disposed of. Under no circumstance what-so-ever, will the recording be disclosed. Information shared would be used in strict confidentiality, and only for research purposes. Data would also be stored and disposed of securely. On publishing, anonymity is also assured. Individual responses would be in no way identifiable.

We are happy to provide feedback if required, on completion.

This project has been reviewed by the University of Reading Research Ethics Committee and has been given a favourable opinion for conduct.

**Contact details for further questions, or in the event of a complaint:**

**Thank you for your help.**





