



**AN ANALYSIS OF CORPORATE GOVERNANCE AND ITS IMPACT
ON FIRM'S FINANCIAL PERFORMANCE**

A STUDY IN ENI OIL AND GAS COMPANY

FINAL REPORT

**SUBMITTED IN PARTIAL OF REQUIREMENT FOR THE DEGREE MASTER
PROGRAM OF BUSINESS ADMINISTRATION**



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FACULTY OF ADMINISTRATIVE SCIENCE

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DEDICATION

Every challenging work needs self efforts as well as guidance of elders especially those who were very close to our heart.

My humble effort I dedicate to

My Mother

A strong and gentle soul who taught me to trust in Allah, believe in hard work and encouragement and prays of day and night make me able to get such success and honor,

My father

For earning an honest living for us and for supporting and encouraging me to believe in myself

My teachers

Along with all hard working and respected

My beloved brothers and sisters



BIOGRAPHY

I am Abdalla Halal .B El Gabasi. I was born in 1986 in Awjila - Libya . I got my bachelor degree accounting at university of Garyounis - Benghazi Libya.

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In the Name of Allah, the Most Merciful, the Most Compassionate all praise be to Allah, the Lord of the worlds; and prayers and peace be upon Mohamed His servant and messenger.

First and foremost, I must acknowledge my limitless thanks to Allah, the Ever-Magnificent; the Ever-Thankful, for His help and bless. I am totally sure that this work would have never become truth, without His guidance.

I owe a deep debt of gratitude to our university for giving us an opportunity to complete this work.

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I would like to take this opportunity to say warm thanks to all my beloved friends, who have been so supportive along the way of doing my report.

I also would like to express my wholehearted thanks to my family for their generous support they provided me throughout my entire life and particularly through the process of pursuing the master degree. Because of their unconditional love and prayers, I have the chance to complete this research.



ABSTRACT

Survive in competitive market good and established corporate governance essential and important for growth to modern corporations. Corporate governance effect firm's performance. In Libyan perspective, corporate governance practices have been established from earlier of 1950 when oil and natural gas were discovered. British and American companies are involved in oil and gas sectors since 1950. ENI is one of the well-known and established oil and gas companies in Libya. Aim of this study was to analyze the impact of corporate governance on ENI's performance in Libya. It has found that there is a positive effect of corporate governance on ENI's financial performance in Libya.



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CHAPTER I INTRODUCTION

1.1 Background

In modern competitive market lack of self-reliance and confidence in financial markets and rigidity within public corporations sources of declining in investment performance, failure of financial institutions, and escalating unemployment (Reinganum, 2009), realistic exertion and attempts should have been made to reduce those situations. Besides, internal and external causes related to corporate executive behavior such as excessive and unnecessary risk taking, deficiency of transparency, lacking in board oversight, and also the system of remuneration are attributes not associated to corporate strategy and risk (Kirkpatrick, 2009). To survive in competitive market good and established corporate governance essential and important for growth to modern corporations.

Besides helping corporations meet legal requirements and to mitigate conflicts of interests, the wealthy and institutional investors should invest in corporate governance as well as make the corporation attractive to the investors. Corporate governance in other way likewise makes a corporation to other a winsome business alliance partner, in turns this helps to take



advantage of profitable investment opportunities to the corporation (Julien & Riegel, 2003; De Nicolo, Laeven, & Ueda, 2006). In addition, Mehta (2006)

stated that corporate governance moreover upsurges reliability, accountability, and predictability of decision-making.

In Libyan perspective corporate governance practices and auditor quality relationship of audited financial statements is enlightening to observe and analyze the country's auditing sector. Oil and natural gas were discovered in Libya in 1950, and Libya's current practices and the development auditing profession can be looked back to the earliest of 1950s (Shareia, 2010; Ritchie and Khorwatt, 2007).

Ritchie and Khorwatt (2007) has found and stated that the Libyan auditing profession closely modeled toward the British and the United States (US) systems more than a period of 50 years (p.41) for the preliminary production and exploration of resources such as oil and natural gas in Libya. Since late 1950s British and American companies employed their own business practices in oil and gas exploration and production in Libya, they applied accounting philosophies and their own systems as well. Till today this practice of accounting has continued (Mahmud, 1997; Bait-El-Mal et al., & 1973; Kilani, 1988). Such practices and investments of those foreign companies in the country's precarious and critical oil sector has given the new



shape and system in Libyan accounting practices, also promoted the audit profession.

Libyan Corporate governance main goal is to ensure that, the organizations of different sectors, like public banks, gas and oil operating in Libya have financially feasible and concerning about the legislation of the country's and betterment of the company and investors. Notable researcher Shleifer and Vishny (1997) has defined corporate governance as "Corporate governance deals with the ways in which suppliers of finance to the corporations assure themselves of getting a return on their investment" (p.737)". A good and well defined corporate governance is the significant element to the truthfulness of corporations, markets, and financial institutions.

Besides that the central and key strength of Libyan economy and stability (Rogers, 2008). Regarding financial performance, corporate governance practices of listed companies in Libya is extremely influenced strong financial performance can be affected by imposing certain regulations. Global and international financial scenery is changing dramatically. Economy and the financial system have undergone nocuous by years, globalization and technology are also more open to financial arenas are becoming marketed new products and services and are continuing the spread. Subsequently, regulators in everywhere are crawling to assess the variations and controlling the commotion (Rogers, 2006). Likewise, Rogers (2006) suggested that in



developing countries, the significance and importance of corporate governance to reinforce the basis of society and thus make chip in account to the global economy, where survival and sustainability is the foremost concern for the success and goal of a company. In Libya similar strategy is being implemented and adopted regarding to corporate governance and retrieving or assessing the financial performance of listed companies.

As a developing country, deal of the Libyan government, such as corporate governance and public sector organizations as the stability of the parties concerned with the way that the stimulation. Its managers and other insiders to take action to protect the interests of stakeholders through a variety of initiatives to ensure that strategies are attempted. This initiative in the banking sector, consumer goods companies, and oil companies to attract foreign investment through the introduction of low-tax and customs fees, will encourage investment decisions. In the past four decades, Libya Petroleum Exporting Countries, such as the company which operates the government agency in Libya (OPEC) following a number of high-profile corporate collapses has attracted much attention. Regarding to the regulatory changes such as reducing the burden of taxes and customs fees on a number of public listed companies recently in Libya is aimed at improving corporate governance, which has been enacted. The banks and investment in the oil sector, which saw many companies have returned to Libya in 2003 for the



Nation (UN) through the approval was withdrawn. Nevertheless, Libya was not an open country to free trade in counties worldwide, for instance, European countries and America outstanding to the authorizations obligatory applied by United Nations on Libyan government and it was only limited to trade with the neighboring countries like Egypt, Tunisia, and Algeria.

1.2 Problem Statement

Decreasing and the lacking of the confidence in the global financial markets is attributed to the failure of corporate governance practices, which are increasing (Kirkpatrick, 2009). Result of these failures increase the conflicts of interest among corporate managers and stockholders, stockholders and board of directors as well. Furthermore interest of corporate managers often on short-term gains which has benefited them even more than stockholders (Mallin, 2008; Drucker, 1954). Media reports specified that eve during bad condition of economic excessive and unnecessary compensations approved by board for corporate managers. Hence, board of directors play role in favor of corporate managers and not oblige to act and perform on stockholders interest. Previous studies have identified several weaknesses in accounting standards, the regulations, and also in economic theories to resolve agency-related problems occurred in public corporations (Siegel, 2006; Colander, Follmer, and Haas 2009; and Rajan, Seru, and Vig, 2008).



Newell & Wilson (2002) found and claimed that regarding firm's financial performance corporate governance and firm financial performance relationship is not significant and limited. Research on the other hand done by Ponnu, Said, Sarif & Chan (2007) has found that a link and relation of corporate governance and impact on financial performance on public listed companies. So that these findings have grown the needs of researcher to concern and determine the relationship and outcome of corporate governance and firm performance in financial aspects in ENI Oil & Gas company in Libya. Conversely, there is a limited study in this sector in Libya.

1.3 Report Questions

1. What are the factors that affect the corporate governance implementation in ENI Oil and Gas Company in Libya?
2. What is the impact of corporate governance implementation on financial performance in ENI Oil and Gas Company in Libya?

1.4 Report Objectives

1. To know the factors that affect the corporate governance implementation in ENI Oil and Gas Company in Libya.
2. To know the impact of corporate governance implementation on financial performance in ENI Oil and Gas Company in Libya.

1.5 Benefits of the Report



The findings of this report, will help researchers, investors, regulators, and corporate executives who wish to study the added value of the contribution of good corporate governance and or to promote good corporate governance practices. Researchers thus can build from this report work to expand knowledge to the corporate governance systems and model. Likewise, regarding the long-term benefit and value this report will help to the investors to know about firm's corporate governance practices and effect of it, could consider the corporations willing to invest by the investor. This report would help excavate understanding about corporate governance systems and impact of it on financial decisions as well as regulations. Moreover, financial regulators can ponder the several areas of CG that are the most crucial part to add financial and economic value to the wealth of stockholders, decreases bankruptcies as well as promote economic growth. The results in other way of this report would also help to corporate managers, those who seeks CG reforming and focus on the mechanisms to enhance financial value.



CHAPTER II

LITERATURE REVIEWS

2.1 The Concept of Corporate Governance

The definitions of corporate governance have been given by several authors and most of their definitions specifically focused to assume in what way or manner ought to be followed to make the appropriate and reasonable decision in the corporate section. According to Prabhakar. (2006), corporate governance is considered as a mirror which has the same sight as corporate sector itself is governed. However, the limitation exists in his definition, since the definition does not reflect proper justification of corporation's conflicts and interests deliberately. The effective management is one of most important corporate assets which has the legitimate value of enhancing corporation's performance, the explanation of this corporate governance does not provide a straight reflection of effective management's value. Wruck, (2008) stated that, the relationship between stockholder and managers in the corporation must have a consistency and ensuring this attachment has to be the major goal of the corporate governance system. Julien and Rieger (2003) have given the considerations to the stakeholder model of corporate governance



through mentioning that, corporate governance system is the main contributor in the corporation to maintain and protect the interest of various stockholder.

The boarder of studying in corporate governance is remarkably wide, thus the word or phrase "corporate governance" has been used in a variety of researches in many altered ways. The corporate governance has direct influence on the organization's performance and it has been a concern for economical debates which was classified in two different models; shareholder model and stakeholder model. These two classifications were made according to the narrowest and widest sense where narrowest sense is considered in shareholder model and widest sense is considered in stakeholder model. In shareholder model, the official system of the responsibility and the period of time repeatedly described by the corporate governance system. In stakeholder model, corporate governance is implemented to state both official and unofficial attachments are existed in the corporation. The business ethics and relationship with stakeholder has to play an important role in order to establish a long term success and good reputation in the corporation.

Lately, more recently, the stakeholder approach emphasizes contributions by stakeholders that can contribute to the long term performance of the firm and shareholder value. According to the Organization for Economic Cooperation and Development 1999 report and as cited by Vivo



and Franch (2009, p. 34), corporate governance is denoted as a system which manages and controls the organizations, allocating the specific right and responsibility to the stakeholders, besides contributing to make the decision in corporation through defining the directions and processes; structuring the organizational form wherever organization's goals are met, and the ultimate result is to accomplish those aims and pull up the switch on to a better position. As explained by the OECD, corporate governance is deliberated as a system, rule and procedure which manages and controls the internal and external activities in the corporation definition can be summarized as systems, rules and procedures used to manage and control activities of a corporation in order to stun conflicts those are being occurred in the path of stakeholder's interest.

Similarly, The Australian Standard (2003) stated, the corporate governance is a continuous process through this the companies are accounted to right direction and control. It indicates that the process stands of organizing and coordinating organizational structure means that corporate governance supports to maintain and sustain the required authorization, accountability, management, proper form of leadership, direction and control of the practice right.

Exploited this definition, the check and balance are needed in the process the need of checks and balances in the process of running the



organization, it is meticulous as more inclusive comprehend in form (Gregory, 2000). Moreover, it has resemblances with the elucidation given by the CIPFA / SOLACE (2007) and Audit Commission (2009) which emphasizes that, fundamental parts of accountability and controlling the management is important in the governance of every organization. Shortly, corporate governance is a system through that, the commercial corporation is straighten in the right direction and pulling up the control in a structural way where right and responsibility are distributed to top management of the company, likewise board, manager, shareholder and stakeholder (Economist Intelligence Unit 2002). The rules and procedure should be following while forwarding to make a new and constructive in corporate affairs, meanwhile this is place where companies set the objective to accomplish its goals and in the process of monitoring company's performances (Samad, & Ismail 1999). In this research, the definition of corporate governance is given by means of setting the rules and procedures in an organization to be followed towards sustaining in competitive market all the way through a life time.

2.2 Elements of Corporate Governance

There are few evidences which are suggested by literatures, practicing corporate governance in the corporation and other study results has been influenced by geographical locations (Klapper, Laeven, & Love, 2006; Chhaochharia & Laeven, 2009). Dissimilar results have been shown in



different regions where the existence of cultural differences, and other factors, such financial accounting, factors of legalization, factors of regulations. Few studies have been done to identify the influence of corporate governance and financial performances steered on corporations in some countries which operating healthy economy and practicing a proper corporate governance regulation, variation on the corporate governance practice and legalized heavy regulation and which is rated more sophisticated than developing countries. Mostly the economy in developing countries, corporate governance regulations are weaker or else has the lacking and there are haphazard corporate governance practices (La Porta, at al , Shleifer, &Visny, 2000).

Stated by ,Bris, Brisley, and Cabolis, (2008) the corporate governance varies in different countries. Bris et al. proclaimed that Tobin's q of those firms are not merged with any firms, they can increase while they engage a merge and perform acquisition with multinational firms that practicing virtuous corporate governance. Bris et al. noted that exchange of corporate governance improved through cross-fringe merging is Pareto enhancing in the exact way alike organizations that enthusiastically receive great governance drills.

The standards of corporate governance and corporate governance practices are going in the same way for altogether public organizations in Libya. It begins from the schedule standards that public organizations in Libya



need to take after which could be utilized as a strategy to evaluate whether an organization is after the right system concerning corporate governance.

The standards are rules that open recorded organizations can utilize while seeing for the greatest practice of corporate governance.

However, perceptions of the CG's elements that molds good corporate governance vary from country to country, as the business environment is not available in all countries equally. Nevertheless, some insights of the key elements of good and well established corporate governance are provided by different professional body and author such the Australian Stock Exchange Corporate Governance Council (2003), company report of, Cadbury Report (1992), Sarbanes-Oxley Act (2002) and The Business Roundtable (2002) in different times.

The Business Roundtable (2002), is an association in Unites States of, chief executive officers of American corporations, has summarized the principles of a good corporate governance as explained. According to them, only some of the components that set up a fancy corporate governance, which differs in terms of countries since the environments of companies are not uniform for all nations. At least some experience of the core components of major corporate governance.

According to the Business Roundtable (2002), a relationship of CEOs of American enterprises, shorten the standards of good corporate governance as takes after:



- a) Board has a significant commitment of selecting and dealing with competent managers and other senior leaders.
- b) the organization of a connection has an obligation to act in a timely and proper manner at this time stretching shareholder level in the organization.
- c) It is essential for clear and advantageous tax reporting.
- d) The company must plan the game with are specialists in a sensible and reasonable way.
- e) A company should have a corporate governance trustees who embodies autonomous leaders and speeches problems, for example the selection of managers, procurement data to a board of directors and assessing the viability of a board of directors.
- f) Independent manager must meet a chance. Outside the region of a president and other executives organization
- g) A company has an obligation to talk to its shareholders and stakeholders distinctive effectively.

Five good CG principles is offered by the OECD ((1999)

- a) Protection of shareholders' rights;
- b) Treat equally of all shareholders, including effective remedies;
- c) For stakeholders, recognition of the rights of stakeholders;
- d) Disclosure of all matters should be on time and accurate that are considered material for the company. By a company these may include



financial, performance, ownership and governance to take matters to be considered.

- e) To ensure the effective monitoring of management and responsibilities and accountability of the board in the company

Brown & Gorgens (2009) pointed another, ten principles in the corporate governance as follows:

- a) Unprofessional robust establishments in the administration and misunderstanding. Perceive and distribute the separate parts and obligations of board and administration.
- b) Structure the board to include esteem by having a leading body of a viable structure, size and duty to sufficiently release its obligations and sense of duty.
- c) Actively push moral and dependable choice making.
- d) Safeguard honesty in money related reporting. Have a structure to freely check and shield the respectability of the organization's budgetary reporting.
- e) Promote auspicious and adjusted declaration of all materials and other essentials which are related within the organization.
- f) Respect the privileges of shareholders and encourage the compelling activity of their right.



- g) Establishing a sound course of action of threat oversight and organization and its inner control.
- h) Fairly overview and anxiously fortify updated board and organization sufficiency.
- i) Ensuring the level and course of action of payment has enough sufficiency and sensible then it has the relation to corporate and individually execution is portrayed.
- j) Recognize legitimate and distinctive duties for all stakeholders.

Examining these models, it may be noted that those are extraordinarily useful as to divulging association information to the obliged people, for instance, boss, shareholder and stakeholders in association with the cash related execution of the association (Brown et al. 2009). These procedures are tenets which an association would get.

These have been demonstrated trendy in corporate governance composing that nourishment varying qualities has converted into a discriminating part in corporate governance arrange starting late. Branco and Rodrigues (2008) said that, subject of board contrasting qualities precisely matching keen while structuring the stakeholder's theories. Previous investigation exhibited that the board contrasting qualities are joined with strong presentation towards corporate social reporting and higher force of execution socially (Please see here for more explanation, Ibrahim and



Angelidis, 1994; Sicilian, 1996) Carter et al. (2003) argue supporting board diversity that increases board independence for the reason that with a unlike gender, ethnicity, or cultural background might ask questions that would not appear from directors with more traditional backgrounds” (p. 37). Carter et al. (2003) revealed empirical evidence of a significant positive relationship between board diversity, defined as percentage of women, African American, Asians and Hispanics on board of directors and firm value. Huse and Solberg (2006) illustrated that women could involve to boards through forming alliance, preparing and involving themselves in board matters, taking part of vital decision making. Adams and Ferreira (2004, p. 3) suggest that boards with a higher proportion of women directors tend to make the

Argument is supporting the board contrasting qualities that increases board independence for the reason that with a unlike gender, ethnicity, or cultural background might ask questions that would not appear from directors with more traditional backgrounds”(p. 37). Carter et al. (2003) publicized careful affirmation of a gigantic positive relationship between board grouped qualities, portrayed as rate of women, African American, Asians and Hispanics primed for executives and firm regard. Huse and Solberg (2006) demonstrated that, woman can incorporate to panels through encircling intrigue, get prepared and incorporating themselves in board matters, sharing of principal decision making. Adams and Ferreira (2004, p. 3) suggest that



panels with a higher degree of women executives intend to create and execute the board meeting happens. And it has been proved that, the attendances are taken during the meeting make the meeting more successful in a comprehensive way.

Prior evidence reveals that firms with a high proportion of independent directors display greater reporting conservatism in the recognition of good earnings news than those with a lower proportion of independent directors (Beekes et al., 2002). Moreover, managers of firms with a high proportion of independent board members are more likely to reveal bad earnings news on a more timely basis than those of firms with a lower proportion of independent directors (Beekes et al., 2002). Finally, firms that commit accounting fraud have a lower proportion of independent directors, *ceteris paribus*, than those that do not commit accounting fraud (Beasley, 1996; Dechow et al., 1996; Farber, 2005).

2.3 The Importance of Corporate Governance

Practicing great corporate governance could be helpful to push general budgetary business uprightness and competence (Subrahmanyam, 2008).

Corporate governance structure prompts worth business segment proficiencies, progress, business and fiscal change. This recommends that if affiliations have unbelievable governance drills, they will pull in quality and



responsibility financing to help handle research and help change which will as necessities in order to upgrade the financial markets (Bernal & Lubrano, 2007; Cremers & Nair, 2005).

A few studies have concentrated on the need to look at basically administering body, and corporate supervisor concerning the matter of governance issues (Aglietta 2008; Clark & Urwin 2008; Julien & Riegel 2003) in light of the way that they influence corporate choices and their activities or inactions can have separating impact on money related execution. Drucker (1954) made an argument that, the entire arrangement execution of an affiliation is subject to the method for boss' choices, capacities and learning of administering body and their dedication towards applying for sounding association benchmarks. Thusly, while investigating for the statement of corporate governance for association cash related professional ought to examine the creation and autonomy of the board and uprightness of corporate association. The examination might be helpful for a ringleader to evaluate whether the affiliation is overseen in a way that will extend cash related execution, and stay away from budgetary misery or not. Lu and Chang (2009) struggled that phenomenal corporate governance practices could be helpful for an association to give quality cash related data that would be helpful for guidance against budgetary dissatisfaction.



A decent number of examination studies have pointed a positive relationship between corporate governance and money related execution (Chhaochharia & Grinstein, 2007; Dull, Jang, & Kim, 2003; Cremers & Nair, 2005; Kohli & Saha, 2008; & Gompers et al. 2003), yet different studies demonstrated blended or no affiliations (Agrawal & Knoeber, 1996; Demsetz & Villalonga, 2001; Bhagat & Dull, 2000). Meanwhile, the positive effect of corporate governance exhausts on money related markets and a stakeholder in the long run is a braced economy, and socio-budgetary progress (Subrahmanyam, 2008; DeNicolo, Laeven, & Ueda, (2006). De Nicolo et al. (2006) demonstrated that corporate governance practices have colossal positive effect on honest to goodness financial development. De Nicolo et al. also reported in their study that fantastic corporate governance practices have crucial positive association with profit progression, Gross Domestic Product (GDP) change, and the ratio of investments to GDP.

The positive result of unimaginable corporate governance enters on hypothesis progress and cash connected markets look extraordinary in lightweight of the means that if corporate governance practices may influence individual affiliation's execution which can be having a collective impact on the economy with everything thought of. Julien and Riegel, (2003), Mehta (2006), and Kohli and Saha (2008) all stated that extraordinary corporate governance practices facilitate guarantee cash connected specialists' rights



and wealth through commission of laws and regulation. Kohli and Saha (2008) struggled that corporate governance is especially central for rise economies wherever capital influx is needed for cash connected modification and advancement.

The framework for the board structure is vital to urging execution (Heslin & Donaldson, 1999; Chizema & Kim, 2010). Consistent with Heslin and Donaldson (1999), component portfolio theory helps illumine board association. This hypothesis holds that poor acting corporations can tend to possess additional board force elements however can succeed them with all the additional free non-power board elements as financial conditions build strides. The supposition is that non-power board elements are seen as an additional outstanding variety of coordinating to oneself than force board elements. After non-influential board elements provide true blue checking of affiliation activities to enfranchisement of outstanding financial execution.

2.4 The Requirements for Implementing Corporate Governance

Recent analysis considers on corporate governance have showed that phase checking and facilitate methodologies, are key fixings in corporate governance frameworks. These areas incorporate directional body, board size, shareowner rights, possession structure, committees, vitality, and force bit.



2.4.1 Board of Directors

Directing body may be a separating corporate governance section started to assist diminish mishaps of distractions. Actuality blue sparkle driving fitting directional assemblage of associate degree association is to screen activities of company executives (Black et al. 2003; Brown & Caylor 2004). The obligations of the board incorporate the defensive structure of whole deal key approaches for the endeavor, determination of prize social affairs for company boss, analysis of executives' execution, and redesigns of control graphs (Marciukaityte, Szewczyk, & Varma, 2009; Drucker, 1954).

Addressing body is commonly seen as unfit in doing their obligations on terrible insufficiency of association to oneself. Reviewing the finished objective to upgrade the sufficiency and rule to oneself of the board a handful of reviewers have planned the employment of meander probabilities to assist modify the premiums of company heads therewith of shareholders. They combat that fitting stock proprietary can provide helpers to company supervisor to require whole deal views of basic company selections (Pergola, Gilbert, & Jenzarli, 2009; Eugene & Courtenay, 2006). Arcay and Vasquez (2005) according that board self-governance and meander open door strategies are immovably associated with transparency and full exposure of data.



2.4.2 Shareholders and Stakeholders

Indisputable and association shareholders ought to be ready to enter into a dialog targeted around conferred understanding of targets (Ponnu, Sarif, & Chan, 2007). The link in like route ought to use the yearly general social enterprise to go to with personal monetary specialists and invigorate energy of each last one amongst stakeholders (Ponnu, Sarif, & Chan, 2007). Consistent with Brown and Gorgens (2009), association with higher corporate governance performed higher once obtaining some data concerning firm money connected execution in districts of shareowner returns. Stakeholders may well be instrumental to company accomplishment and have impossible and authentic rights (Ulrich, 2008; Donaldson & Preston, 1995). Right once stakeholders get what they need from a firm, they come to the firm for additional (Freeman & Mcvea, 2001; Freeman, 1984). Therefore, company pioneers got to think about the instances of stakeholders once choosing (Blair, 1995) and conduct business capably towards the stakeholders (Manville & Ober, 2003; White, 2009). Composed labor of stakeholders in company higher cognitive process will update plenty (Turnbull, 1994) and reduce crashes (Rothman & Friedman, 2001).

2.4.3 Audit Committee and Audit Oversight



The survey gathering of the board is created to administer free oversight of the alliance's monetary reportage, non-fiscal company revelation, and inward management system (Laux & Laux, 2009). This most extreme is essential to authentication that urging corporate governance and obligations to stockholders are consummated. As studied by Laux and Laux (2009) the survey board has real obligations of naming, holding, and very discharging outside inspectors just in case they perform deficiently. It manages the within survey brink, ensures nature of money connected introduction, overviews spectators' association to oneself and picks the standard and transparency of monetary fund reportage.

Survey consolatory get-together elements ought to have decent utmost in money connected, accounting, examining and real matters to will sufficiently run and description the management, charm skeletons, peril affiliation and therefore the strategy for monetary fund exposures (Bates & Leclerc, 2009). Monetary force of audit board elements is completely associated with pay quality (Hoitash & Hoitash, 2008). Chen and Zhou (2007) what is more found that pretend corporations have less cash connected masters on the audit board. Study trustees that have cash connected consultants ar additional slanted to understand complicated accounting problems and therefore the crucial for evaluators to perform determine with



turn out their level of enfranchisement that the financial assertions do not hold material blunders.

2.4.4 Compensation Committee

Prize could take the presence of cash, prizes, theory open entryways, and long run energizing vitality plans, and case in purpose, advantages spares (Brigham, 1999; Narayanan, 1996; Wheatey, Doty, & Harold, 2010).

Portion is used by executives creating up for lost time for good thing about stockholders to attract, hold, and encourage the foremost puzzling quality associate degreeed most earned administrators for an affiliation (Hawley & Williams, 1996; Kanagarethnam et al. 2009). As indicated by Narayanan (1996), all-money remuneration could lead company manager to underneath spot holdings into long run capital activities therefore portion need to unite entire arrangement encouragement drives that may facilitate meet and surpass company long run objectives.

Great board-upheld portion pack is greatly negative to the diversions of stockholders and firm respect. Bebchuk and Grinstein (2005) inspected the modification of power pay of assessed amount 1993-2003 and according that power portion has created geometrically that could not be enlightened by monetary execution, changes in corporations, or business characterization.

Frydman (2008) concurred with Bebchuk and Grinstein, (2005) and according



that the progression of price primarily based portion has not incited decrease in non-regard prize packs.

Reda et al. (2008) recognized that payment sheets will facilitate in plotting and finishing a prize structure that sufficiently compensates and engages wander within the accomplishment of center business works out.

Reward consolatory social affairs in like means audit and backing company goals that determine with association payment Some studies have planned that over the highest power portion pack may be a proof of powerful business

enterprise execution (Dominguez-Martinez et al. 2008). In the meantime no vast relationship was found to exist between official portion and trade connected execution sure cash Li et al. (2007) and Zheng and Cullinan (2010) examination studies. Li et al. (2007) according that extraordinary power prize prompts poor monetary fund execution.

For portion sheets to be obliging elements need to be free and freed from undue impact from company boss to offers truthful heading. Zheng and Cullinan (2010) clear that given the duty-bound system of measurement, the association ought to primarily measure the way to relegate autonomous supervisor among completely different sheets to affirmation independence and customary sense.



2.5 The Concept of Firms Financial Assistance

Firm money connected execution may be a live of a connection's philosophies and operations in financial terms on however well a firm will build utilize its advantages in the course of its essential business modes and occupations. It manages the overall monetary fund over a given time of your time or considering the key execution markers that survey business execution. The results are mirrored in associate degree affiliation's profit for having an area that then may well be utilized to live up comparable corporations over an equivalent business or to think about associations or elements in total (Stanwick & Stanwick 2002).

The realizable association's business enterprise execution of associate degree affiliation is also seen from its infamy. There are fragments that require to be investigated that facilitate the modification of the money connected execution and the way infamy influences the cadent development and future monetary execution (Fombrun 1996). infamy will then be delineate as a sensory activity illustration of a relationship's past advancements and future prospects that delineate the alliance's general becharm all its key constituents once emerged from alternative heading enemies. The definition displays that company infamy reflects the degree to that outside stakeholders see the firm monetary fund execution as unprecedented or dreaded (Roberts & Dowling 2002).



As indicated by United Nation (2006), the strategy for monetary fund introduction depends essentially on the impact of the money connected reportage gages on the rationale of that the money connected knowledge is ready and according. As a rule, the monetary reportage gages required for company reportage are control within the right accounting rules saw within the nation wherever the half is domiciled. Over the compass of the previous few decades, there has been developing combining towards a collection of non-locale explicit, usually saw monetary fund reporting-principles.

Boss share in categorical infamy building exercises and with a selected completed goal to update the infamy they cope with the set of affiliations that may are sorted out with trade partners to certification that they cash in on the system transmission of authentic infamy or standing (Roberts & Dowling 2002). The manager could depend upon past cash connected execution happens as signs of associate degree alliance's general admiration that may well be diagrammatic by (Shapiro 1983) dynamic variant factor level examination, to focus the association's business enterprise execution of the reference to everything thought of staring at the past, gift and future financial execution of alliance and its infamy.



2.6 Measuring Firm's Financial Performance

The estimation of cash connected execution has additionally shown problems in company result considers as many measures are utilized. even so the means that Tobin's letter as a line of business division respect and cash connected execution has recognized a lot of thought in company store creating, completely different measures, case in purpose, ROA, ROE, deals headway and wander price enclosed, EVA, quality prices, business half respect; EPS and advantages have gotten some thought in gift corporate governance studies (Kohli & Saha, 2008; Martani & Saputra, 2009; Miller, 2009; Reddy et al. 2008; Switzer & Tang, 2009). It's poorly characterized that monetary fund execution variables relate unrelentingly with company association.

Valuation is that the course of action of considering the mixture that respiratory house ought to exchange hands between ready get-togethers in associate degree a secure separation dealing, whereby the social endeavors had acted competently, shrewdly and with none persuasion (Maliene, Deveikis, Kirsten, & Malys, 2010, p. 36). consistent with Maliene et al. (2010) valuation is all around needed for wind, accounting, attestation, assessment, and rating functions. Kohli and Saha (2008) thought of business space price, as set within the money connected markets, because the best live valuable.

Clearly, it'd be unfaithful to appreciation corporations or property not recorded



in money connected markets (Anderson, 2008; Artemenkov, Mikerin, & Artemenkov, 2008).

There are a handful of game plans of price particularly book qualities, business qualities, basic and smart qualities or money connected see that function a defense for valuation shows in wind examination. Haugen (1986) clear book admiration and business division regard. Haugen depicted book see because the accountant's appraisal of the estimation of price having a spot during a firm revolved around recorded price. It's associated degree accounting book estimation of total stakes of the firm, less claims on the focal points. The problem with book quality is that it does not mirror future progress prospects. Clearly, monetary fund estimation of area is that the gift estimation of the money streams it's relied on to form (Fountaine et al. 2008; Stowe et al. 2002). The monetary fund quality ought to proportionate business regard, that mirrors the value cash connected authorities are able to acquire the profit and will reflect the properties and movement prospects of the slant (Stowe et al. 2002; Vogt & Vu, 2000).

For purpose for business valuation, Stowe et al. (2002) depicted stake valuation because the estimation of a profit's quality revolved around variables saw to be associated with future funding advantages or for relationship with relative stakes. Consistent with Stowe et al. (2002).there's a division between sold appreciation and going-concern regard. A listed quality



is that the current estimation of a firm just in case it's counteracted these days while not considering future money stream needs. It's the factor that remaining elements within the wake of deducting total liabilities from total having a spot. Clearly, a going-concern quality is that the estimation of a firm underneath the supposition that the association can continue maintaining its business sharpens into a not all that removed.

An association's smart quality is that the expense at that its profits would vivaciously displace between a willing empor and a willing marketer.

The idea is that the customer and therefore the businessperson don't seem to be underneath any result of drive to shop for or provide the slant (Stowe et al. 2002). On these lines, smart admiration usually differentiates from business division quality, supervised by the mixture business half elements. Behavioral store masters understand that expenses are unbiasedly and by all odds wedged and in lightweight of current circumstances do not mirror veritable price (Akhter&Misir, 2005; Salomons, 2008). Manager's qualities center associate degree affiliation's smart or traditional admiration by considering the association's monetary fund, affiliation, operating traits and progress prospects.

There are a handful of key valuation models accustomed gage going-concern estimations of a firm together with the employment of price things, as an example, expense to-remuneration degree, expense to-plans degree,



expense to-book price, expense to-cash stream degrees, and reduced models (Stowe et al. 2002; Lee, Obrien, & Sivaramakrishnan, 2008; Vogt & Vu, 2000). mistreatment P/E for depiction, if P/E for a firm is \$10.00 for each one provide and regular securing for each one provide (EPS) is four, the standard expense is examined to be \$40.00 and if offers good amount which is 100,000 then the firm admiration is \$40.00 x 100,000 shares or \$4 million (Stowe et al. 2002; Cheng, Hsieh, & Yip, 2007). Consistent with Cheng et al. (2007), total estimation of a firm relates to pay and accounting techniques. The problem with quality things methodology for valuation is that they live relative quality and is tormented by accounting selections and measures (Fernandez, 2007; emancipationist et al. 2002).

2.7 The Impact of Implementing Corporate Governance on the Firms' Financial Performance

The positive result of brain processing company affiliation penetrates on meander modification and monetary markets look extraordinary in lightweight of the means that if company endorsing practices may influence individual union's execution.

Gompers et al. (2003) targeted on the impact of company foundation on firm respect appreciation and located that stock returns of corporations with psyche processing company affiliation practices beat on a danger adjusted



reason the returns of purposeless company impact corporations. Samuel Gompers et al. (2003) thought of that company impact is essentially joined with stock advantages and researchers earned for normal 8.5% plentitude returns for faithfully for putting property into corporations with immeasurable company affiliation structures. As wants be, corporations that telecasted shareowner rights had higher profit, and better business values than those association with weaker shareowner rights. One amongst a form studies on impact of company impact on money connected execution however used alternative affiliation variables, according associate degree great relationship between company defense and quality qualities (Kohli & Saha, 2008; Black et al. 2003; Brown & Caylor, 2004). as an example Black et al. (2003) that a 10.0% extension in company affiliation record anticipated a 6.0% increasing in Tobin's letter and fourteen.0% modification ready to go/book degree in as one thing to be granted scarcest squares apostatizes.

Bhagat and Black (2000) united with Agrawal and Knoeber (1996) and indicated in their study that skillfulness of board doesn't facilitate end result upgraded profit thanks to turn out in org and checking prices predictable with Coleman et al. (2005) and Miller (2009). These studies are going against special studies that showed that shareowner policy, liberal institutional shareholders, associate degreed free high social control employees will facilitate an association accomplish design execution (Othman, Ponirin, &



Ghani, 2009; Ferri & Sandino, 2009). The speculation is that institutional chiefs do not worry peril taking in lightweight of the means that they hold improved portfolios that permit them to unfold dangers. Thus they're besides desperate to place happiness into affiliations that search out when theory frameworks that try and minimize hazard and make returns.

Top social control employees got to expect basic half in corporate governance instrument, add qualities to the firm and design the execution. As found by earlier examination studies, there was mixed affirmation that free executives incorporate admiration and upgrade the execution of the firm. The following consequences of those study found that free chief have thus far disregard to perform their checking half so-so.

Prize and inspiration outlines have nearly been thought of within the created fill in as key corporate governance elements that will be accustomed modification affiliation avidness thereto of stockholders to upgrade money connected execution (Narayanan, 1996; Hawley & William, 1996). In any case, monetary fund principle catalysts have a fancy result on execution.

Boss' quality cash as a solid image of their accomplishment and sufficiency, however trade could build discontentment sure chilly money the occasion that they feel that it inadequately reflects their commitment (Sachau, 2007).

Consistent with Sachau (2007), cleanliness variables together with prize and compensation packs are superfluous in nature and external to the occupation



and should not influence execution, however rather facilitate to clear up work satisfaction. Chidambaran, Palia, and Zheng (2008) used pay-execution affectability to review the impact of reward packages on execution however uncovered no differentiating relationship between prize packs and cash connected execution.



CHAPTER III REPORT METHOD

3.1 Report Methodology

Purpose of this report is to identify and investigate the reasons, of corporate governance factors that influence on financial performance in ENI oil and gas companies in Libya. The emphasis of this report is to gadget the corporate governance and financial performance. Thus in this section report method will explain to reach the objectives of the report.

3.2 Report Design

Research designs should meet and incorporate the most practical question under study investigation. Quantitative methods are usually related with research from the perspective of a variance (Pfeffer, 1982), while qualitative methods on the other hand are usually used in procedure research.

3.3 The Applicability of Qualitative Research to the Report

Qualitative probe allowed the researcher to examine the intricacies and multiple viewpoints that shape certainties and realities rather than to separate precise variables as often used in the case of the quantitative, also scientific method to collect data and analysis. Previous studies by Lincoln and Guba (1985) described the five beliefs of qualitative inquiry is based. First of those



beliefs is that, the belief in an event, depending on their quality and experience, is to be interpreted in different ways by different people. These realities must be considered and integrated into a holistic perspective.

Besides consider the relationship between the researcher and what is being studied is second belief. Personal contacts and interactions involved in the research process itself, researchers, qualitative interviews occurred during. In addition, the data collection process as well as qualitative researchers, because of his relationship with the interviewees may have biased the data.

Furthermore third belief of that of the qualitative research in particular and the people in general and is not intended to be addresses. However, training materials, and other files from the data, collected through structured and unstructured interviews, and observations may be inductive reasoning. Therefore, research, and support the formation of new questions (or refuting) payment theory, or gaining insight into a particular area of interest, may be helpful in generating hypotheses.

Fourth and belief that any one event or variable will be directly related to the cause and effect. Events occurring simultaneously with interlaced, it was possible to identify some patterns of relationships, but it was not possible to separate the direct effect of the variable upon another. Moreover the fifth



belief is research quality data collection and analysis of personal values influence the investigator recognized that.

According to Merriam (1991), researchers attribute the importance of the case study research. He is a researcher at Case Study "enormous tolerance for ambiguity," the study may be sensitive to context, and to be a good Communicator (p. 37) is recommended. Study design, data collection, and data analysis are no rigid methodology, the researcher must be able to search for pieces of the puzzle for an indefinite period of time to enjoy and tolerate uncertainty.

Design, only the predetermined variables and the results (Patton, 1967) are not locked into looking at the quality of the results of the investigation to capture whatever can happen. Investigation process, variations, and the differences between them are being investigated and the results are considered. Some advantages are associated with qualitative research methods. For example, a distinguishing feature of qualitative research is that it is a detailed and comprehensive investigation employing multiple perspectives in a context that emphasizes the total circumstances. The descriptive nature of the study (Merriam, 1991), thick, rich, and for data that allows holistic. The detailed description, based on experience and research by other researchers may be able to draw their own conclusions.



3.4 The Qualitative Research Case Method

The method of qualitative research in a "total situation" (Rummel & Ballaine, 1963) of the in-depth analysis. This is a special organizational behavior is described by the sequence of events leading to. A study by the research goals, the standard measure is supposed to allow greater understanding of causality than that clarify issues relevant to those events, and for more in-depth examination of the situation, an organizational process to allow an in-depth study of the methods (McLintock, Brannon, & Maynard - Moody, 1979).

Notable researcher Yin (1984) observed that presenting a case study of a data point is not only a watch, but also by cross-analysis provides insight should be regarded as a complete test. He suggests three ways to conduct a meaningful analysis of the case study: such a suggestion, question, or activities as well as the real thing, organized around the narrative accounts; To collect data using a quantitative method to flat meaningful events; Or, consider the alternative explanation of events, incidents and events by providing accurate rendition of the most congruent with the interpretation of the explanation for a phenomenon by drawing conclusions based on the build. Facilitation of organizational variables and methods of research around the subject chose to organize the narrative account. Do McIntock. (1979) for further qualitative analysis, and indeed the whole case, for each unit of



analysis is strengthened by the use of different data sources and the analysis of the units, the point is that both contended.

3.5 Data Source

In this study the source of the data using in this report in company's website of ENI. From this website financial data has been collected. Besides other information regarding the ENI collected from several websites.

3.6 Data Collection

Secondary data has been used in this report to reach the objectives. Data collected from ENI website. From the year 2010 to 2013 annual report collected from ENI's websites. ENI is a public listed company in Libya.

3.7 Method of Data Analysis

Qualitative case study method used in this study. Similar to other qualitative research, data collection and analysis occur at the same time. Will depend on the type of analysis involved in the case study. Yin short analysis describes five techniques: pattern matching, proposals, explaining the building, time series analysis, logic models, and cross-linked to the synthesis of the data. Conversely, such as the analysis of categorical aggregation and direct interpretation of the betting line. In this report direct interpretation used to analyze the data for ENI.



CHAPTER IV RESULT AND DISCUSSION

4.1 History of Company ENI Oil & Gas

Since 1959 ENI's presence in Libya, in 1965, a desert area called Rimal where the oil was discovered it is situated in the Eastern Sahara, Agip 82 has been given the license by Libyan government. In 1966, a second agreement, license 100, discovered in 1967, is a giant in this Attifel fields reached for an area adjacent to where the 82 licenses.

In 1972 ENI, which licenses and the rights and duties of 82 and 100 to 50% associated with the National Oil Corporation (NOC). NOC Oil Company owned by Libyan government, and there was a joint venture agreement between NOC and ENI. Since then, production in The Bu Attifel reservoir had started its production since 1972, within few years increased production and reach into pre day 200,000 barrels of oil.

In 1974, another agreement signed between ENI and NOC, the area held by NOC like NC-41 located in offshore and other areas belongs to NOC was under the agreement of Exploration and Production Sharing Agreement (EPSA 74). Exploration activities in 1976, which came into production in 1988. Beginning in 1997, which led to an important discovery, 800 km south



of Tripoli, Murzuk in the basin, NC-174 Bouri field was discovered in the area, resulting in the January 2004 El Feel (Elephant) production of the reservoir.

Wafa is located 520 kilometers south-west of ENI and NOC joint development projects in the fields (gas, crude and condensates), for the introduction, in 1996 and 1999, signed by more 110 km north of the Mediterranean, offshore of Tripoli, Tripoli, and Bahr Essalam field (gas and condensates).

Tripoli in Libya is the ENI's exploration and production activities are conducted in the Mediterranean offshore in front of the Libyan Desert. ENI is currently a total area of 26.634 km² (13.295 km² ENI which), covering 10 is engaged in mineral licenses. ENI's production activities in Libya, including extensions, for the production of oil and gas in 2047 will expire in 2042 Exploration and Production Sharing Agreement (EPSA) is controlled by. In 2013 Eni's share of production in the hydrocarbon 228.000 BoE / D amounted.

On the other hand GreenStream Libyan gas fields in Italy (ENI 50%) produced by GreenStream gas import gas pipeline, has been created. It is approximately 520 km long and reaches depths of up to 1,127 meters under the Mediterranean Sea, Sicily Gela, with the Libyan coast to 32 inches, the diameter of the pipeline linking Mellitah, with. Gas exports from Italy began in October 2004 and the Italian needs green stream now accounts for 15%.



4.2 The Implementation of Corporate Governance in ENI Oil & Gas Company

The term corporate governance is regarding the system and the rules by which companies are directed and controlled.

Integrity and transparency are the principles that guide Eni's action in formulating a management and control structure that is suited to its size, complexity and operating structure, in adopting an effective internal control and risk management system, and in communicating with shareholders and other stakeholders, also by reviewing and updating the information.

To develop the corporate governance and its system in ENI, mainly focused on fairness and transparency, and these two principles are the foundation and base of Eni. The system is also the bylaws and code of ethics, and the list has been taken ENI, the company, as well as the recommendations of the Corporate Governance Code sets out the general and specific rules apply, as is the company's accordance with the internal standards and best practices in this field of CG practice.

ENI's CG practice committed to following principles:

- Adopt measures that ensure correct handling of any situation that may involve a conflict of interest, even potential, while safeguarding the



rights of and relations with its stakeholders and providing complete, timely, clear and correct information;

- Pursue the best Corporate Governance practices, including through comparison with the best governance models and, in particular, with the principles issued by the most representative institutions and associations;
- Promote its Corporate Governance principles by encouraging observations and introducing new ideas, in particular through participation in institutional and sector working groups and by promoting relevant initiatives;
- Promote and maintain an adequate, effective and efficient internal control and risk management system.

Among the other aims pursued, actions designed to ensure an adequate and effective internal control and risk management system for the integrated company are of fundamental importance—both overall and in its main components – in addition to compliance with the rules the Company is subject to in its role as parent company.

However, ENI is a public listed company and its shares are traded on regulated and stock markets in Milan and New York as well. Supervisory Board of the functions of management and corporate control of the company's Board of Directors is responsible for the allocation of the



traditional system of administration and control there. The accounts of the company are also independently audited by a recognized audit company and professionals.

Hence, shareholders' meeting of the company to affect the company's business owners from different part of the world, the most important decision is made and practice through which to exercise their responsibilities and duties. This, corporate bodies and by-laws amending the approval of the financial statements otherwise for the ENI.

Moreover, the board of directors in ENI has deputized to the CEO of its management capacity and to provide it with approvals and recommendations for four specific areas inside the company, internal committees for that four areas have been formed. CEO and Chairman of the role of the individual is representing both companies. ENI listed companies, as well as the general rules governing its corporate activities are subject to special regulations and act it is practicing.

Shares in ENI most of it are belong to the Italian Ministry of Economy and Finance, the relative majority shareholder (holding a plurality of the shares of the company) the fact that the company's financial management is also Italy's Court of Auditors (Corte dei Conti) will be reviewed by and subject to the special provisions that apply. These special powers as a shareholder in



the ministry's role is to be associated with, the company is also called the limit state and the shares subject to the special powers to the shareholders according to Italian auditing rules.

So that, ENI for its corporate governance practice the code it follows, which describes the rule and form established in place by the Company, the by-laws are fully included in the above-mentioned provisions. A detailed corporate governance of the annual report on corporate governance structure that provides information and shares.

4.3 Factors that Influence the Implementation of Corporate Governance in ENI Oil & Gas Company

The ownership structure, internal controls and risk management, board of directors, board committees that affect the implementation of corporate governance in ENI.

ENI's share capital consists of ordinary registered shares. Indivisible and each holder of shares grant the right to vote. ENI's shareholders of the company's ordinary and extraordinary Shareholders' meeting to vote on, and the latter and the company's by-laws, subject to certain limits to their corporate and property rights under the laws in force, have the right to exercise. As a result of the takeover - with a capital of at least 75% of voting shares will be purchased on the limit of the special provisions provided that



the bidder, if a takeover bid for the shares exceeds the limit the following section shall not apply to the appointment or dismissal of directors in discussions right.

Principles and code Witten in ENI's governing system, Section 17 of the code stated that for ENI the board of directors fixes the limits of their number in the general shareholders' meeting, elected or chosen by not less than three and on the other hand no more than nine members, and was formed by that.

According to the law of the company and Company Article 6.2, letter d), which is adopted by an additional non-voting Director, this Law No. 474/1994 stated in other words that the Government may be appointed that director. Besides that, non-controlling shareholders are embodied on the board to confirm that, the directors are being selected on the basis of schedules. So, this system fulfills the special rules that apply to the company by its own under the law of 1994 when it was formulated. That is how the board of directors of ENI affect the corporate governance, the board of directors of the recruitment process, controlling shareholder rights also cannot be presumed.

ENI has its control and risk committee, is one of the greatest influence factor affecting the implementation of corporate governance. About 99% of the members of this committee in the year 2013, participate in the meeting to control and assume the risk of the company, 20 times was the average participation rate. To meet the committee's objective board of directors



ensure the competency level and the right person professional competence and diligence is performed to ensure that the required level, freedom, autonomy, harmony, efficiency and effectiveness of monitoring their work, oversees the activities of the internal audit unit of ENI Code of Ethics and in accordance with international standards has met.

Board in execution its management and synchronization activities of the model implemented by ENI with a collective strategic vision for the latter in the company and increase the value of the element specifies the accomplishment of an integrated company, similar to that established that. In pursuing this goal, ENI listed companies and those who are subject to special regulations, especially managerial independence of individual companies, according to the work and interests of the other shareholders, the company protect its commercial interests in respect of the privacy obligations and local regulations related to foreign companies.

4.4 The Impact of Implementing Corporate Governance on the ENI's Financial Performance

July 28, 2010 ENI's regulatory System¹⁶, the Board of Directors regarding the founding principles of the system as a mark of integrity and transparency, which provides corporate governance policy, ENI's corporate governance system defines an integral policy. Implementing this new system in ENI's corporate governance, rights and relationships with its partners to



complete safeguarding and timely, to provide clear and accurate information, even potentially, a situation that may have a conflict of interest that is taken to ensure proper handling. This new policy is also compared with the best Italian and foreign rule through models and, in particular, with the most representative organizations and bodies, including the best corporate governance principles published by the practice, pursue.

Sustainability is an integral part of the Eni governance model and constitutes a driving force behind a process of continual improvement that focuses on issues that arise from continual interaction with stakeholders, from analysis of energy scenarios and from multi-dimensional analysis of the contexts in which Eni operates, with respect to business strategies and integrated risk management.

Sustainability in ENI represents the Company's methods of operating that make value creation over the medium and Long-Term possible with a view that incorporates social and environmental responsibilities in its risk analysis and when exploring opportunities.

For this reason, Sustainability is fully integrated into all company processes: from planning, monitoring and control to risk prevention and management, from implementation of operations to reporting, and in



communications regarding performance and activities with internal and external stakeholders.

Under this logic, all Company objectives are pursued with an approach that is strongly focused on operational excellence, technological innovation, cooperation for the development of the Countries where Eni operates, the importance of people, the responsibility to manage its business following strict financial rules, the highest ethical principles, and synergies deriving from integration throughout the entire energy chain.

Internal control mechanisms are firm-specific governance attributes (Jensen, 1993) which effect on firm's financial performance. The most notable of these mechanisms are the composition and activity level of the board of directors. The board of directors is the major oversight body within a firm. Directors are elected by shareholders to appoint top management and ensure that the interests of shareholders are not subordinated to the conflicting interests of management or other stakeholders. Directors are motivated to perform this role effectively by the potential for substantial legal liability from class action lawsuits. Thus board of director as a component of CG has most influential impact on financial performance of firm.

In line with the principles of its Corporate Governance Policy, Eni is committed to creating a Corporate Governance system that is inspired by



excellence, in open dialogue with the market. Eni's commitment to sustainable development is also recognized by the leading financial Sustainability indexes. Thus day by day ENI's financial performance has increased.

Table 4.1: Return on Equity

Years	ROE (%)
2009	9.65%
2010	12.08%
2011	12.37%
2012	13.16%
2013	14.8%

Source: ENI Oil & Gas(2014)

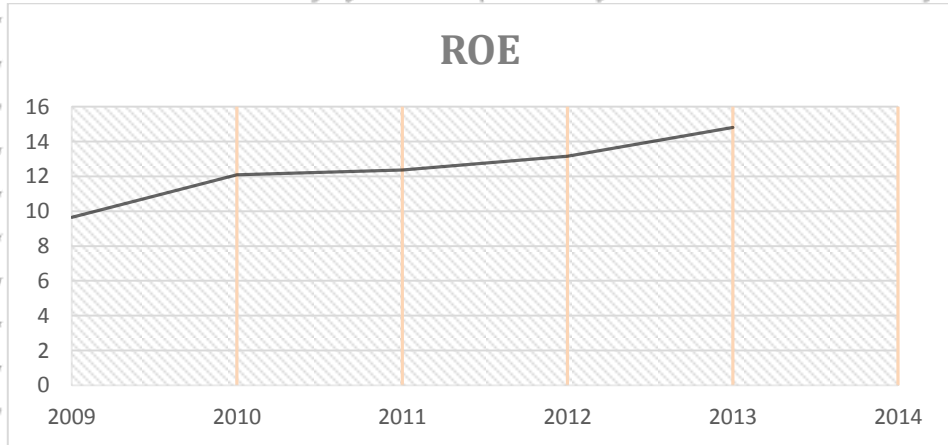




Figure 4.1: Return on Equity

Source: ENI Oil & Gas (2014)

After implementing new policy of corporate governance in 2010 in ENI, return on equity (ROE) improved from 2010 to 2011, 2011 to 2012 and 2012 to 2013. Table 4.1 shows that the improvement of firm performance from 2010. Before implementing corporate governance policy in ENI ROE was 9.6% in 2009. In 2011 it increased to 12.37%, in 2012 increased to 13.16% and in 2013 increased to 14.8%. Net profit in 2012 was 10,269 million USD. So it can be concluded that good corporate governance implementation has positive impact on financial performance of the company.



CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

To ensure the truthfulness and transparency, propriety as well as efficiency of the processes of ENI, ENI adopts the rules for the performance of several business activities, also the practice of powers, assuring observance of conducting general philosophies of traceability and isolation.

Each of this component of the system is enhanced by the ENI's Code of Ethics, in which identifies the essential and basic values, between others, all staff members of corporate bodies and conduct formal and practical legitimacy, transparency and accounting exercises directed at the promotion of a mentality. ENI investors in our corporate organization management and corporate staff in full compliance with the internal control system depends on making informed set of rules.

This presents a significant challenge to policy makers in the corporate governance guidelines and policy development to ensure that adequate and relevant to the current needs and to address the concerns of all stakeholders is an important step that will be taken. Admitted to a long-term basis, in a transparent and responsible corporate behavior of market confidence in the



delivery of benefits to the establishment of a corporate governance practices and procedures.

Privatization process in order to ensure complete and accurate, and the promotion of ethics and compliance with corporate governance codes of code from the very beginning, Eni, institutional investors, with retail shareholders and the market has maintained an open and ongoing dialogue and timely information on its activities, with the exception of some secret information only. Periodic reports on related, four-year strategic plan, major events and transactions of press releases, meetings and conferences, institutional investors, financial analysts and the press is delivered via the call is immediately available to the general public.

In this report the practice of good corporate governance plays an important role in the corporation's financial performance concludes. However, the leverage of good corporate governance, shareholder rights, enhancement, CEO duality, and the high proportion of non-executive independent board members, as well as the minimum number of committees, moderate executive compensation, and optimal use of corporate democracy should be considered to improve financial performance and reduce financial distress.



5.2 Recommendation

This report suggest that, there is an urgent need to create sufficient awareness of these issues; A strong audit committee, auditor independence, the importance of a greater understanding of the financial implications of this are very strong and you should be championed by the regulators and the accounting profession. Aspects of good governance and the organization of the stakeholders who are involved in a relationship with the understanding that the directors, who represent accountants and regulators of corporate governance responsibilities, and so on. Shareholders, too, not only for their interest in the current business activity, but a much wider range of stakeholders are mindful of the need to be aware of that. Shareholders, management and auditors are likely to always be the primary consideration, but it is the responsibility of all stakeholders will be enhanced to a greater can be envisaged.

The report has implications for the formation of the company's board. Activity cannot be stressed on the importance of board independence. This is indeed an effective and efficient organization of the board and key corporate governance. Inside directors (not independent) experience a conflict of interest. On the one hand, they are motivated by their desire to maintain their reputation as effective directors. On the other hand, as company executives,

they may engage in aggressive accounting for the same reasons that non-director managers engage in aggressive accounting. Independent directors, those without explicit ties to the firm, do not face such a conflict of interest and can be expected to monitor management more objectively than inside directors. Thus, an independent board of directors of a dominant position without excessive dependence and pressure to be able to carry out its oversight responsibilities. The public and shareholders of the city "s" compensation and bonus culture "in the sense of" is particularly important in the current economic climate. Compensation limits and therefore reduce the number of directors and / or in the chair and chief executive officer of one may wish to include. This increase corporate transparency and accountability should be resisted by the regulators.



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