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LEBANESE BANKS' STATE OF READINESS TO LIFT BANKING SECRECY

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"The superior man, when resting in safety, does not forget that danger may come. When in state of security he does not forget the possibility of ruin. When all is orderly, he does not forget disorder may come."

Confucius (551 BC - 479 BC)
Abstract

“Organizational readiness for change is considered a critical precursor to the successful implementation of complex changes.” (Weiner, 2009)

Today’s environment is becoming more and more turbulent and organizations are floating in an unstable environment where they are continually faced with the need to implement changes in multidimensional aspect whether in strategy, structure, process, or even the culture itself which requires organizations to be lenient and flexible to actively change accordingly in a nonstop pace. Hence, the complex project of change management requires organization to be ready to adopt its elements by starting early the preparation process. The prevailing believes and behaviors could eventually turn not effective and thus should be removed or altered (Khodaparasti, Absalan, & Khodavandegar, 2013). Organizational Change is faster than ever and it comes from all directions; the primary motive for change is triggered by forces in the external environment mainly related to societal changes, technological changes and explosion of knowledge which are considered some of the main factors making organizations’ change certain. These organizational pressures make things more complex and could cause conflicts of interest among concerned parties at different levels in the organizations.

Along with the international openness in conducting financial transactions among jurisdictions and particularly after 2008 global financial crisis, the financial flows of these transactions have caught world’s attention. Consequently, a wave of change is conquering the worldwide financial sector: Eagerness for Transparency and Suppression of Secrecy. The Lebanese banking sector, being an adopter of a strict secrecy law, is highly concerned with this wave of change. Is the Lebanese financial sector ready to encounter this change?

Many previous researchers have studied the importance of individual readiness to change and some few others have emphasized on organizational readiness to change and they end up providing valuable results although none of the previous researches have studied banks’ level of readiness toward this specific change. In order to respond to the research gap, this study explored the level of readiness of Lebanese banks for the end of banking
secrecy by interpreting the points of view of board of directors and middle managers, specifically compliance managers.

A qualitative approach was implemented. Semi-structured interviews have been conducted with nine BOD members and nine heads of compliance working on top and middle ranked banks (Alpha and Beta groups) in Lebanon. Three interviews were also conducted with three representatives from the three main agencies in the central bank of Lebanon to figure out their assessments regarding the subject at hand. Following this, the interviews have been coded and analyzed using NVIVO. The results of this study emphasize the controversial aspect of this subject where environmental forces push banks to change and lead to a new state where international rules and standards supersede shareholders and become the new principal in the banks. Moreover, a disagreement prevails in understanding and assessing the phenomenon of lifting banking secrecy in Lebanon between BOD members and middle managers. This outcome designates a conflict among the two parties which will negatively affect the level of readiness of the Lebanese banking sector for this change and questions the successful adaptation to the international environmental forces.

As a result, this research successfully contributes to the academic literature of readiness to change management and provides practical contributions to researchers and practitioners in the banking sector. Moreover, the researcher was able to uncover a hidden factor in the agency theory highlighted by the effect of international forces that are considered the new principal in the banking industry.

**Keywords:** Banking Secrecy, Transparency, Lebanese Banking Sector, Environmental pressures, Readiness to Change, Institutional Theory, Agency Theory.
Acknowledgements

Abstract

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Abbreviations

ABL: Association of Banks in Lebanon
ACPR: Prudential Control Authority and Resolution (in France)
AML/CFT: Anti Money Laundering/Counter Financing Terrorism
AML: Anti Money Laundering
BCC: Banking Control Commission
BDL: Banque du Liban (Central Bank of Lebanon)
BOD: Board of Director
BS: Banking Secrecy
CEO: Chief Executive Officer
CRS: Common Reporting Standards
EDBA: Executive Doctorates in Business Administration
FATCA: Foreign Account Tax Compliance Act
FIU: Financial Intelligence Unit
FSI: Financial Secrecy Index
IMF: International Monetary Fund
IRS: Internal Revenue Service
IT: Information Technology
KPMG: Klynveld Peat Marwick Goerdeler (accounting firm)
LCB: Lebanese Canadian Bank
ML: Money Laundering
OECD: Organization for Economic Co-operation and Development
SIC: Special Investigation Committee
STR: Suspicious Transaction Reports
TF: Terrorist Financing
UBS: Union Bank of Switzerland
UN: United Nations
US: United States of America
USJ: Saint Joseph University
Part One: Introduction

"The very word " secrecy" is repugnant in a free and open society; and we as people inherently and historically opposed to secret societies, secret oaths, and to secret proceedings"

John F. Kennedy (1961)

The objective of this introductory part is to present an overview of the research detailed shown in figure 1 in section 1.2 below. This part of the research describes the main motives that lead the research to dig deep in this field and to shed light on the importance of the research problem and its significance in a financial era characterized by an enormous evolution in the banking sector and mainly at the level of transparency and information sharing.

1.0 Research Problem and Motivation

Although banking secrecy has been studied many times; this meticulous and controversial issue still catches the attention of researchers, bankers and other practitioners in the financial sector. To get a general idea, a quick search in Google scholar engine on the term “Banking secrecy” in general reveals 73,200 results. This results diminishes to 16,500 when “Lebanese banking secrecy” is searched in particular
A remarkable point of view in the related literature reveals that most of the articles published in this field are mainly related to the positive and negative facets of banking secrecy as a practice in the banking industry.

Little researches have been performed regarding the environmental factors that triggers possible change in this issue and its consequences at the level of banks. Hence this research gain its importance by proposing a creative research question not already consumed in the research field:

**Is the Lebanese financial sector ready to respond to the world wide pressures for higher financial transparency and information sharing by lifting banking secrecy code?**

Many historical and recent scandals gave good reason for the international community to implement intensive pressures to reduce the effect of bank secrecy laws. By looking back in the international and local financial history, many scandals reveal. Banking secrecy was directly or indirectly a main cause that lead to financial crimes and eventually to banks’ failure. Swiss Wegelin Bank case that was defunct in 2013 for helping its US clients to evade tax obligations of over $1.2 billion between 2002 and 2010 is just an example. Alike, another Swiss bank, Leu AG Bank, were one of the scandals due to application of strict secrecy law related to insider trading was enough to shut down its operations. The local Lebanese market was also affected and many examples could be stated….The frustrating shockwaves sent by the collapse of Al-Madina bank and more recently the Lebanese Canadian Bank are hard to be healed easily and forgotten due to the negative effect that they cause to the reputation of the Lebanese banking system.
In the same perspective, Wikileaks- an international organization that has recently published secret information and classified financial data shed light on the “secret-safe resort” systems that enables crime, corruption and wrongdoing, to be hidden by secretive offshore companies. Furthermore, Swissleaks- a fortune of thousands leaked detailed files on over 100 thousands HSBC clients and their bank’a accounts that were buried by bank secrecy sounds the death knell for banking secrecy. Last but not least, the Panama Papers scandal presented by a huge leak of internal database of million financial and legal records that reveals a global web of corruption and tax avoidance have lifted the bank secrecy veil to show how just one large law firm, Mossack Fonseca & Co., based in one country, Panama, helped leaders and criminals from different countries to hide money from taxes and disclosures. These documents, that were published and shared publically, have justified even further the already declared war on banking secrecy.

At this level, it is worth mention that when the researcher first applied to the EDBA program, her interest was in assessing Lebanon place in fighting money laundering (ML) and terrorism financing (TF) by comparing the national regime versus the international standards.

Following the first few seminars and while taking into consideration the important fact of having access to information in order to be able to proceed in the thesis, the researcher decided to visit the special investigation commission in Lebanon-SIC- Lebanon's Financial Intelligence Unit (FIU) that receives, analyzes, investigates suspicious transaction reports (STRs) and ensures compliance of banks, financial institutions and other reporting entities with the AML/CFT regulations. A meeting was set with a responsible party at the SIC and the researcher was informed that the information she seeks is characterized by being highly confidential and it is hard to share it in public.

In this regard, objects to be studied prove impossible to reach and the opportunities to create useful results become questionable. And because finding the appropriate research ground that is needed to conduct a specific subject cannot be guaranteed by a doctoral student, the researcher must be prepared to reconsider his/her research design depending on constraints and opportunities that he/she meets (Romelaer and Kalika,2011, p.130). Accordingly, the researcher decided to change the research question to ensure usefulness of findings.
Therefore, the researcher decided to change the topic in order to assure full access to the needed information, all while keeping in mind that having an interesting remarkable topic related to the banking sector is on her top priorities. To reach the research’s objective, intensive online research along with a series of meetings took place with many responsible parties in the banking sector (Banking Control Commission Representative-BCC- which is the central bank supervisory authority responsible for overseeing and regulating the banking sector in Lebanon-, international Bank Representative-Lebanon Branch) and with a business professor at the Lebanese American University to end up having this new subject, regarding the level of readiness of the Lebanese banks to lift banking secrecy from the Lebanese banking sector, as a topic to be explored.

Because an essential mission of scholars is to conduct a research that both moves forward science and enlightens the practice of profession (Van de Ven, 2007, p.9), a deep research to study the effect of lifting a main pillar of the Lebanese banking sector following the world wide trend for higher financial transparency and information sharing triggered the researcher’s interest in this field in order to produce quality knowledge.

The world is running more and more into more stringent rules and compliance matters where secrecy has no more place and the concepts of transparency and access to banking information can hardly be argued against. Hence, this paper aims to explore the level of readiness of Lebanese banks for the end of banking secrecy by interpreting the point of view of board of directors’ members and middle managers (heads of compliance):

- Is the Lebanese financial sector ready for this change?
- Is there any strategic alternative chosen by the Lebanese banking sector to face external pressures?
- Is there any potential conflict of interest among shareholders and middle managers toward the anticipated change?

Creating the right position and the appropriate competitive advantage is not a simple process but rather a complicated state were many factors jointly get involved and limit even further organizations’ capabilities to set the appropriate strategy. What was valid before regarding building an unbeaten competitive advantage for a life time is not valid anymore. “Amid sometimes unpredictable, always uncertain, and highly turbulent
business conditions, an organization’s capacity to learn as it goes may be the only true source of competitive advantage” (Rowden, 2001). Lebanon adopted the banking secrecy law in 1956 in a bid to attract Lebanese and foreign deposits (Elkanj & Zreika, 2011). For instance, the banking secrecy law was able to put the country in the top 10 globally for most financially secret economies and the number of Lebanese banks reached 72 in 1968 after it was only 31 in 1955, barely one year before issuing the mystery law that was capable of doing magic in the sector and deposits alone amplified by 467% between 1950 and 1961 and it continued to increase significantly during and after the civil war between 1975 and 1990 (Martinez, 2017). Since 1956, the law was never updated or amended despite the sky-high improvements in the banking activities.

Facing environmental pressures, change readiness along with organizational capabilities to catch change signals and adapt quickly become part of the game. “Instead of being really good at doing some particular thing, companies must be really good at learning how to do new things” (Reeves & Deimler, 2011). For instance, because environmental pressures affect internal actors’ behaviors, enhancing institutions’ ability to control agency conflicts that could prevail by adopting a ready institution become a must.

Searching in the Lebanese banking sector is an interesting subject by itself which gains more significance when banking secrecy, a meticulous issue, is considered the core of this research. Many factors contributed to the importance of this subject given that Lebanon occupies a unique status in the Middle East for its banking service with rapid development since the 1990s (Elkanj & Zreika, 2011) where the Lebanese commercial banks constitute the corner stone of the financial system in Lebanon for being the most profitable economic sectors in Lebanon in the post civil-war (Naimy, 2005). In this regard, Lebanon is considered a financial hub for banking activities in the Middle East and Eastern Mediterranean and has one of the most sophisticated banking sectors in the region according to the latest report issued by the United States Department of State Bureau for International Narcotics and Law Enforcement Affairs (INCSR 2014).

It is worth mention that the Lebanese banking industry has excelled after the 1956, the date of issuance of the banking secrecy code in Lebanon due to the privileges offered by the law (Bris, 2009). Many factors intervene to jeopardize the actual state of enjoying secrecy in conducting banking operations in Lebanon and the code by itself was shut by
various blows lately, causing it to lose many of its positive aspects (Martinez, 2017). The G20 indicated that the veil of secrecy, including bank secrecy, has been pierced and there is a worldwide need to remove all barriers that hinder information exchange (Zucman & Johannesen, 2012). For instance, the current worldwide game known as globalization has put the legendary banking secrecy law in Lebanon at odds with its rules (Martinez, 2017). In this regards, the US crackdown on tax collection through FATCA law makes the Lebanese banks’ precious banking secrecy more costly under the spreading of regulations promoting transparency. In this regard, from 2013 onwards, Lebanon faced massive international pressure to restrict its banking secrecy where, in June 2013, Lebanon signed its willingness to accept an automatic exchange of information under FATCA regime to the US authorities (Cochrane, 2013). This American law, being in opposition with the secrecy code, coerces Lebanese legislators to select between either tighten their banking secrecy code or bear the consequences of being negatively impacted as a result of non compliance (Martinez, 2017).

Moreover, the development of the worldwide Common Reporting Standard (CRS) on July 2014 and in response to the G20 request, which requires countries to collect information from their financial institutions and automatically exchange that information with other countries on an annual basis is considered inconsistent with banking secrecy practice and turns, once again, the dear banking secrecy hard to keep since the law requires the Lebanese Minister of Finance to enter into agreements with other countries to share information related to tax evasion or tax fraud.

Furthermore, Lebanese banks’ expansion in the region and worldwide made information sharing and collaboration among cross border entities and regulators a vital task. According to the IMF report published on January 2017, banking secrecy law in Lebanon presents several drawbacks at the national and international level related to transparency demand. On one hand at the national level, banking secrecy law restricts access of the banking control Commission-BCC- to debtors’ accounts only. This fact poses limitations on prudential supervision and hinders the BCC for developing in-depth understanding of the funding structure of a bank and its liquidity risk profile (IMF, 2017). On the other hand at the international level, cross-border cooperation in Lebanon should be reinforced especially that Lebanon’s Law of 1956 “on banking secrecy” plays a negative role and
poses challenges in sharing confidential information with host supervisors hence it reduces the practical effectiveness of information sharing among jurisdictions, compared to other jurisdictions, although needed instruments for cooperation and collaboration, such as “memorandum of understanding” among different countries, are in place. Nonetheless, the dear law still stands stiff in its primitive form which leads to suspicion at the level of integrity and transparency of the Lebanese banking system especially that there is huge global opposition to have countries outside globalization and its standards (Martinez, 2017).

As a result, the importance of exploring the level of readiness of Lebanese banks to respond to the international transparent pressure and accordingly adapt reveal. In this regard, banks are called to amend their traditional operating practices to remain viable in the decades that follow (Agboola, n.d.) by coping with the information technology invention where internet banking, electronic payments, and information exchanges are just some examples (Berger, 2003).

1.1 Research Relevance

In the last few years, the banking sector has passed in a stage of experiencing wide-ranging changes. This phase is not seen to be ending soon; rather many major changes will continue to prevail over the next decade. Many factors have contributed to the current prevailing process of nonstop changes in the banking sector emerging from the facts of Liberalization, Privatization and Globalization (Anjani, 2013).

The banking system in Lebanon is the backbone of the Lebanese economy and it is the main condition for the country to prosper. Nowadays, Lebanese banks survive in a crucial state since various changes are requested from the sector especially changes related to transparency and information sharing. Different environmental pressures are ringing the bell for change in the sector and adaptation is necessary for bank to survive. “Banking secrecy” adopted in Lebanon in 1956, being one of the sector main competitive advantages, makes adaptation to change calls even more difficult…. Change by itself is a complex process which is not easy to be implemented since it is extremely difficult to predict the number of variables that will surface once the change process takes place. “Change is challenging. With any organizational change come unknowns. With unknowns come ambiguities” (Corley & Gioia, 2004). Hence, the reasons behind change
must be clear and the logic behind changing must be openly expressed (Gustafson & Widerlund, 2010). Because people, managers and shareholders, differ in their risk appetite and in their assessment regarding change interpretation and implementation, possible conflict among concerned parties may jeopardize work efficiency and bank sustainability. According to the agency theory, an agency problem arises when the goals of the principal and those of the agent do not match and when, on the other hand, it costs the principal to verify what the agent is in fact doing (Eisenhardt, 1989).

Given the high level of uncertainty and turbulence prevailing in the environment along with the different environmental pressures that intervene and dictate organizations’ destiny, it becomes a mission impossible for organizations to set up and execute changes fast enough to meet the demands of this turbulent, changing environments and it turns out to be very hard to predict the right position or to make the accurate forecasting and analysis to draft organizational plans and strategies appropriately. According to the institutional theory, organizations are limited by various external forces (Oliver, 1991) which oblige organizations to act in specific ways (Pfeffer & Salanick, 2003) because underestimating uncertainty can be devastating and to boost up the ability to accept change and be ready for its consequences and eventually turn out benefiting out of it, necessary steps must be taken by the Lebanese banking sector before being oppressed by the international environmental pressures. At the end, success in banking requires learning and adaptation as fast as the world is changing.

After 2008 worldwide wide financial crisis, many calls and alarms were spread in the financial industry calling for change in conducting banking transactions under the light of transparency. In addition, the global trend to fight terrorism gave a legitimate right for many critics to raise their voices louder toward more financial transparency and therefore abolishing secrecy rights.

Enhanced transparency and financial integrity is the new name of the game in the international financial system. (Verhezen & Morse, 2010) argue that the full truth relies in the hand of more disclosure and less secrecy which shall be considered a new shared value in the information culture in general and mostly in the global business environment. Till now, the Lebanese rigid financial secrecy law is still untouched were no alterations have been introduced to it since 1956. Will the ultimate power of secrecy succeed to
prevail in face of the tsunami of transparency? Big major financial centers were not able to resist….. Switzerland, the famous secret haven, was not able to stand stiff in face of the storm. Hence, amending current practices could be seen in the coming chapters….Is Lebanon ready to adapt to change? For instance, it worth mention that that Lebanon accounts for slightly under 0.4 per cent of the global market for offshore financial services, making it a small player in the financial internal market (FSI, 2015)…Hence if no appropriate steps were taken to match with the international transparency wind, it will not cost much the global financial system to select the Lebanese banking population out of the financial worldwide game which, if happen, will lead to devastating results in the Lebanese economy.

Because even the simplest changes entail risk, anticipating change and get ready to adapt to it mitigate hazard by providing the organization with enough time and expertise to balance the risk and reward of change (Armenakis, Harris, & Mossholder, 1993). Thus, the importance of being ready to change reveal which is first “a state of mind reflecting a willingness or receptiveness to changing the way once think” (Bernerth, 2004) in addition of being a set of thoughts and intentions toward the specific change effort and not just only understanding or believing in the change itself. Insufficient anticipation to change stimulus emitted by the environment is like gambling with the organization’s destiny since this insufficiency hinder its ability to continue operations.

1.2 Research Project Outline
The main interest behind this research is highlighted in Part 1. Once the researcher specifies a particular area of interest, in depth literature review has been conducted and elaborated in the different sections of part 2. The literature review assists the researcher in specifying the research gap and the appropriate theoretical framework that best address the research problem while suggesting potential contributions at the level of related theory and related literature. Part 3 was dedicated to the research methodology followed in this work that best tackles the research subject as well as presetting the research’s results. In part 4, the researcher discusses the findings and wraps up the whole work were theoretical and practical contributions were offered, along with the limitations encountered while conducting this research as well as possible opportunities for further researchers. Figure 1 below summarized the outline of this project:
Personal Interest in the Lebanese Banking Sector

Part 1
Identification of Research Motivation and Big Issue

Preliminary Literature Review
- Review Previous Researches in the related field

Preliminary Interviews with the Concerned Audience
- Highlight on subject interest and Uniqueness

Part 2
In Depth Literature Review

Specify Potential Contribution
Specify Research Gap
Mobilize Theoretical Framework

Wrap up Research objective

Part 3
Research Methodology and Results

Discussion and Conclusion

Contributions
Future Researches

Figure1- Research Project Outline
1.3 Personal Reflection on 10 Years of Experience in a Local Lebanese Bank

Ten years spent working in the Lebanese banking sector were enough for the researcher to notice the importance of banking secrecy code, which is still in its primitive state since it was drafted in 1956, in all banking transactions and documents. The researcher started her banking career in the risk management department where she spent almost four years as a head of operational risk unit managing related risks. Mitigating risks and diminishing loss resulting from inadequate or failed internal process, systems and people as well as legal risk and environmental risks was not an easy task in a sector full of laws and regulations. The availability of strict law, like banking secrecy which is punishable by imprisonment of three months to one year as well as civil liability, accompanied by the wide trends such as the expansion of the internet and the rise of social media make the mission to manage such risks a burden by itself. From the minute an employee join a bank, “respecting banking secrecy code” is one of the first internal document that shall be signed….Almost every internal document and form that a client signs includes a code related to this strict law. Account opening forms, transfer applications, FATCA notification and related forms are some examples that clearly cover banking secrecy code. Moreover, any checking over the client financial status requires client’s approval first. Consequently, extensive effort and follow up is required on a continuous basis to make all necessary amendments to avoid any potential legal and reputational risks.

Every update in the local or international cross borders regulations require a quick amendment to these documents and forms while respecting the what is believed “hard to crack” Lebanese banking secrecy code.

Later, heading the anti money laundering and fighting terrorism unit did not spare the researcher from the importance of banking secrecy code in conducting daily work…. Replying to correspondent bank’s queries and reporting tax information to external parties about bank’s client highly jeopardize banking secrecy and challenge it. Although reporting and replying to external queries is not a choice, having clients’ consent is obligatory to avoid potential liabilities and reputation risk that may jeopardize bank sustainability.
Last but not least, being appointed to become the head of Organization Standard Procedure and Development Department in a local Lebanese bank where the researcher became responsible to set the appropriate processes for the bank to follow in conducting its operations as well as to draft the different bank’s policies and procedures and all to be done in coordination with local laws, international best practices and cross borders regulations while participating in setting the bank’s strategy was by itself a journey that well emphasize banking secrecy code in drafting most documents.

Accumulating professional experience in three different business units for almost ten years was sufficient to raise the researcher’s interest to explore a hostile topic in the Lebanese banking sector, highlighted by its secrecy code, which could jeopardize its existence for being considered one of its main pillars in an era of more and more international regulations that are issued to boost up financial transparency that enters into contradiction with banking secrecy.

For instance, our world is continuously shifting in a fast speed (Gustafson & Widerlund, 2010) and different reasons may trigger change in different industries. All societies have witnessed a great expansion in the service marketing field in general and in the banking industry in particular. In the next section the researcher will discuss the great changes encountered in the banking sector, which is the core field to be studied in this thesis, at different dimensions.

1.4 Evolution of the Banking Sector

The variety of services provided by the banking industry lead banks to play a major role in all societies hence changing most aspects of modern societies’ lives and activities (Oluwatolani, Joshua, & Philip, 2011). Following this era of financial booming, countries more and more express their concerns regarding serious financial challenges (Kurup, 1996). In the financial sector, the banking industry is facing a continuous process of change globally out of the need for more efficiency, effectiveness, and ethical practices. In this regards, a series of major in depth transformations and revolutionary changes are undergoing where the scope and scale of banks’ activities are highly altered and many reform measures are being carried out at a hectic pace globally (Ombui & Kariuki, 2014) where the financial crisis of 2008–2009 could be considered one of the toughest reasons that prompted this wave of banking reform.
Pfeffer and Salancik (1978) argue that “if you wanted to understand organizational choices and actions, one place to begin this inquiry was to focus less on internal dynamics and the values and beliefs of leaders and more on the situations in which organizations were located and the pressures and constraints that emanated from those situations.” For instance, customers, regulators and bankers get ready for a new phase of banking highlighted by new trends. On one hand, massive new government regulations, evolving customer demands, fierce competition, innovative products and services, and technological developments all together induce organizations to undertake major changes. On the other hand, global trends toward more transparency and information sharing has notably changed the banking industry worldwide where the time of hiding money is coming to an end and pressure is mounting on financial institutions to share information. Transparency’ supporters believe that the solution of all financial crises lay in the hand of full disclosure of information (Florini, 1998).

Hence, operating in a simple well anticipated banking industry is a statement from the past. Currently, the banking industry is considered one of the most turbulent and competitive sectors (Agboola, n.d.) where the speed of change in the financial industry has been very high over the past ten years mainly in response to technological innovation which is considered one of the most significant causes of socioeconomic change (Suarez-Villa, 1993). Almost every sector has been affected by technology and innovation and banks have benefited substantially from technological innovation to strengthen their bases of competitiveness (Oluwatolani et al., 2011) specially that it is seen having a fundamental role in serving humanity where innovative technological solutions are changing the way business used to be done and banks are extensively relying on innovative technologies to please their target markets (Berndt, Saunders, & Petzer, 2010). Improving relationships with the open-source community, selling product via social media channels are considered some of the new baby born in the banking industry (Berger, 2003).

**In the next section, the researcher stated two major global advancements in the banking industry that could not be adopted in the presence of secrecy.**
1.4.1 Cloud Computing

"Innovations are not produced because they are useful; they are just produced. If an innovation turns out to enhance life chances, it will be retained and spread through the population with high probability" (Hannan & Freeman, 1984).

One of the most technological revolutionary changes brought forward in the internet field is known as cloud computing which brings major enhancement in data transfer and communication field. Cloud computing is growing rapidly nowadays and in many fields where many organizations from different sectors decided to move to the clouds to benefit out of the many advantages related mainly to easy access, cost reduction, flexibility, environmental friendly IT solutions, and business continuity. Other advantages of cloud computing in the banking sector is directed toward less costs, less investments in new hardware and software, better probability than traditional techniques regarding disaster recovery.

One of the fields that is expected to merge their business in the clouds is the banking field because it provides promising business idea to the fastest growing areas of the information which allow them to reuse the IT resources of the banks very efficiently (Choudhary, Jadoun, Mandoriya, & Kumar, 2014). Cloud computing provides centralized server for the employer and customer and it reduces the cost of installation since there is no more need to manage individual computers and installing in each computer for any application software.

In the presence of banking secrecy code, the banking sector in Lebanon cannot consider the move to a cloud since data confidentiality and security is still questionable. Banks in Lebanon, being restricted by the secrecy law, cannot afford security violation’s risk.

1.4.2 Bitcoin and Blockchain

Traditional payment methods highlighted by the use of cash and other conventional processes are melting away and new updated forms based on numbers and digits processed over the internet are taking place. Electronic and mobile banking are fast entering in our daily life and changing our conventional payment methods and our long-established belief on the banking transactions and related habits.
One of the most astonishing new babies born of technological inventions is the use of blockchain which was born on 2009 in an attempt to build an alternative system of money beyond the control of central authorities (Shubber, 2016). This technology enables the trading of bitcoins, which will most probable lead to a shift in the financial services industry worldwide. “You should be taking this technology as seriously as you should have been taking the development of the Internet in the early 1990s. It’s analogous to email for money” (Silverberg, French, Ferenzy, & Van den Berg, 2015).

Being characterized by a decentralized structure will turn upside down the traditional banking industry by providing competing solutions based on consensus among participants via a shared public ledger open to the public and based on encrypted data records over the internet. This innovative approach to process financial transactions through the internet and without any intervention from any central bank will, in fact, help banks saving money by eliminating central authorities and bypassing slow, expensive payment networks. This invention could change the name of the game from paper and coins to zeros and ones tackled through the internet hence disturbing and confusing the financial services all over the world even more since this new technology holds strong promises in having the ability to move the current financial processes to a higher level of efficiency, security, transparency, and less expensive, and then help in inspiring for the creation of new products (Silverberg et al., 2015).

In this essence, The Euro Banking Association declares that blockchain technology has the ability to reduce costs, improve product offerings and increase speed for banks. In this regard, a report from issued by Santander InnoVentures claims an expected reduction in banks’ infrastructure cost by $15-20B a year by 2022 by using blockchain technologies. For instance, in 2017, bitcoin trading breaks USD 11,000 for the first time (William-Grunt, 2017). Although this distributed ledger technology (DLT) had some disadvantages, ignoring it cannot prevail for a long period of time especially after being already accessed by many users. Rather, concentrating on what customers really searching and denying unnecessary other aspects in the banking experience along with being innovative and efficient is considered a top priority in creating a successful strategy since one of the roles played by organizations is to fulfill customers’ needs and to delight them by introducing innovative products and services that they desire (Suarez-Villa,
Customers nowadays in this knowledge based industry are becoming more and more sophisticated regarding products and services that they request.

DLT, commonly known as blockchain, is the “next-generation financial services infrastructure” which has captured the imaginations of the financial industry’s players by offering simplicity and efficiency, bypassing slow, expensive payment networks along with other promising capabilities (World Economy Forum, 2016).

In this era of globalization along with the age of information blooming where tons of data become available to various market players at the same moment, successful organizations are the adaptive ones who are able to catch the signals of change first, read its consequences, assess their circumstances, identify relevant actions and adjust their strategies and business models accordingly otherwise become obsolete and not useful (Reeves & Deimler, 2011).

In the presence of secrecy code, banks in Lebanon are far cry of from adopting this new technology due its high level of transparency since all trades transactions, done by this virtual currency, “can be viewed and verified by anyone using the system”(Shubber, 2016)

### 1.4.3 Transparency Era

After 2008 financial crisis, investors became conscious of the importance of transparent financial activities. For Abdullah and Valentine (2009), there is a global tendency toward more transparency and accountability since worldwide territories are losing their boundaries and local governments are losing control. The debate over bank secrecy is converging with a global debate about the issues of personal privacy and data protection. Transparency nowadays is highly promoted "in the context of a new digital reality of more disclosed data turned into information and knowledge within and between organizations, and second in terms of personal responsibility, otherwise known as integrity" (Verhezen & Morse, 2010).

Nowadays, trust and transparency are considered the main building blocks of corporate life and “no secrets” become mandatory and the advancement in technology facilitate its application. Communication technology is the main driver for more transparency within
society since "the internet era has made transparent policies part of a growing global culture of information" (Verhezen & Morse, 2010).

A prominent source of financial no-transparency is banking secrecy that restricts the access of public authorities to bank client files. In general term, secrecy is a deliberate action to keep something confidential and out of reach of designated others. It is built on the idea saving people’s right of privacy and of not sharing with others. It allows people to enjoy freedom of non disclosure and eventually granting them the possibility of hiding information. Providing customers with confidentiality right and protection of clients’ information towards third parties as well as preservation of the value of assets, and the opportunity for legal financial services coupled with tax advantages were the main objectives of secrecy laws (English & Shahin, 1994). Additionally, due to banking secrecy it is hard to obtain information or additional background information about a person from another financial institution. As a consequence, clients of banks in such secrecy jurisdictions can trust their banks to keep their files outside public scrutiny, which opens up possibilities for illegal activities (Palan, 2002). Moreover, regulators encounter problems when transactions are carried out through foreign financial institutions protected by bank secrecy (Grassie, 1987)

After highlighting the researcher’s main interest in exploring the Lebanese banks’ state of readiness to lift banking secrecy in face of various environmental pressures highlighted by transparent requests and new technological advancement, the researcher has looked deep in the related literature of readiness to change from specific theoretical lances in part two below.
Part Two: Literature Review and Theoretical Framework

“C'est dans le présent que réside le secret du futur. Si tu fais attention au présent, tu peux le rendre meilleur. Et si tu améliores le présent, ce qui viendra en suite sera également meilleur.”

L'Alchimiste (1988) de Paulo Coelho

The objective of this part is to search in depth in the literature of banking secrecy and the banking sector in correspondence to the related environmental forces, as well as exploring the importance of readiness to change; and to structure the research problem in a specific conceptual frame that would best answer the research questions... In this regards, different subjects were tackled and presented in an organized platform in part two below which is divided in various related chapters and sections. For instance, banking secrecy in the global context has been first explored before funneling down to the specific case of Lebanon. In addition, a review of previous researchers work has been presented and real life examples were set in addition to a separate chapter that has been dedicated to explain the choice of the theoretical framework mobilized for this research.

2.0 Introduction

Some researchers believe that the main mission of organizations in society is to increase shareholders’ profits (Friedman, 1970). This rule has been redefined over time and criticized by many researchers who believe that organizations have to recognize the changes in the environment and respond accordingly (Crane & Matten, 2007) to secure the integration of the organization to its environment.

Nowadays, no one can deny that constant and continuous change elements are part of our daily life. Organizations do no operate in vacuum, rather they are open to the environment where they interact with its components and get affected with it. In this regard, if society is moving fast, environments within it are most probable to be continuously shifting. The volatility of changes facing organizations has significantly amplified. Organizations’ capacity to adapt and change is a main research matter taken into consideration by many researchers since organizations should interact with many
other stakeholders to guarantee the successful results of the change process by meeting the expectations and the needs of the society. In this essence, organizations should be well aware of the importance of designing a flexible strategy that can easily comply with the level of turbulence prevailing in the environment in order to survive (Khodaparasti et al., 2013).

Traditional approaches to strategy that used to be effective in a simple stable environment turn out to be out dated and unusual in our current dynamic environment and vagueness is the new name of the game in the strategy making process. Globalization, technological innovation, and transparency winds jointly turn over the business environment (Reeves & Deimler, 2011). This uncertainty creates further serious challenges in the field of strategy making where many factors intervene in the daily decisions of CEOs.

Currently, periodic reviews of the strategy and its level of efficiency is a must to ensure its relevance with time and in accordance with the environmental prevailing forces, organization mission and available structure and current market needs and its evolution. What used to be applicable in the past short period of time may become irrelevant and unable to meet the strategists main objective of crafting a sustainable competitive advantage and a differentiated market position inside the black boxes of the customers’ minds capable to attract their attention (Reeves & Deimler, 2011).

Many researchers have introduced many promising results in studying organizational evolutions and the importance of readiness to change. Different attempt in the field of organizational change have been done to assess the complexities of modern organizations. Common results suggest that change can be either radical which present new divergence in operation and/or structure of the organization, or continuous which take place smoothly in a period of time. Regardless of the type, implementing change in an organization is not an easy step to be taken. It is very important to make the procedure of transformation appear as a reflective thoughtful management practice that is done for the best future for the organization itself and for the society it serves.

There is no one rule to manage strategic changes; rather many approaches define strategic change management from different perspectives. For instance, Rowden (2001) claims three main models of strategic change which indicate the favorite methods of how companies can best go about introducing fundamental changes in their business. The first
model—“Formal Planning Focused” - the traditional formal fixed planning version where the main focus lay on the ability of top management and senior executives on planning of strategic change. Reality proves that many organizations who followed this rigid model fail and could not build a competitive position in the market place since setting the best plans without drawing a road map for implementation to be followed by the managers within the organization is not sufficient. As an attempt to conquer the drawbacks of the first model; a second approach—“Implementation Focused”—emerged in the late 1970s and early 1980s by empowering middle managers to giving them a seat on the strategic formation table. However, many of the implementation problems identified earlier were still prevailing since non managerial employees who execute the plans were not aware of the necessity to introduce change nor they were able to cope with the new technological invention hence resistance prevail. None of the previous models were able to reach the objective of managing change regarding lessen resistance and better adaptation. Thus, a new approach was formulated on the scope and focus on—“readiness”—by highlighting the importance of designing an organization capable to accept change factors once they appear since successful strategic change is positively related to the level of organizational readiness to accept change within the organization.

The evolution of change models did not reach a dead end. Rather, further amendments offer additional contributions in the field. An updated fourth version of strategic change known as-the learning organization emphasizes on employees’ participation on decision making, even at the strategic level, and in problem solving to facilitate the organizational process of constantly changing and improving, thus making it closer to achieve its goals. Hence, a learning organization is one in which employees are likely to embrace continuous change (Holt, Armenakis, Field, & Harris, 2007). Open internal communication channels among organization’s members, destroying internal boundaries among the different business units, and enhancing flexibility are considered the basic pillars of this new strategic change approach.

Successful management of change is fundamental for any organization to survive and to keep up with this rapid pace of change. In this regard, managers are struggled to find strategies that help their organizations to succeed in such a dynamic environment. The formulation and implementation of a good business strategy is influenced by many
factors. “When thinking about strategy, one must look forward and visualize how the organization might evolve. The strategy provides the “roadmap,” articulating the organization’s overall business direction” (Kaplan, 2007).

For instance, banks, being major institutions in society, are concerned with the process of readiness to change to survive in light of the importance of adaptation in the strategy formulation to mirror environmental updates…In this regards, an action plan has been launched by the G20 to bring the era of banking secrecy to a dead point in 2009 (OECD, 2011). This decision, which has significantly distorted the global financial environment, rang the bell in offshore heavens to set out new complaint strategies to international request that guarantees transparent exchange of information among jurisdictions. Consequently, the researcher deemed necessary to explore, in chapter 2 below, the history of banking secrecy and its global end in the international financial market.

2.1 History of Banking Secrecy and its Global End
Defining banking secrecy in relation to transparency requests is necessary to start the argument in an period characterized by a main pillar, information sharing. Transparency and secrecy are the opposite of each other: “Secrecy means deliberately hiding your actions; transparency means deliberately revealing them” (Florini, 1998). It is considered that more disclosure and transparency are required for a successful management in the banking sector (Verhezen & Morse, 2010) since the extent to which an organization is open closely contribute in determining its success (Verhezen & Morse, 2010) and in positively affecting its performance by shedding light on its parts and allowing the society to clearly see its components.

The grandfather of bank secrecy is internationally referred to Switzerland which is well known as the world’s largest tax haven. Old and profound roots characterized Swiss banking secrecy. Searching in the history of the world oldest secret regime reveals that in 1713, long before Switzerland existed as a federal state, the Great Council of Geneva implemented a “secret” legislation that prohibit bankers, who were collecting substantial sums from European nobles, from disclosing details about their clients. Later, during the First World War, many prosperous Europeans escaped their money to Swiss to avoid
contributing in the war financing effort which produced the largest ever flow of money into Swiss banks.

Banking secrecy law was not officially enacted before the 1934 by the Switzerland legislator. At this year, it becomes a serious criminal offence to disclose information about their clients. The reason that was spread at that time is to protect German Jewish money from the Nazis. Before the banking secrecy law of 1934, professional confidentiality similar to the one that prevails between lawyers and their clients was widespread, and it was only considered as a civil offence in case of violation and not a criminal one as it is after the 1934 law which was first drafted after the beginning of the Great Depression in order to protect the sector from popular anger about bankers. (FSI, 2015).

Years ago, many attempts to crack Swiss banking secrecy were taken by different countries. All those trials reached one result: FAILURE. Solid, hard to break, deeply rooted are some of the main features of the Swiss banking secrecy that lead, years ago, to this failure.

With growing opposition against secret havens, Swiss had no choice but to be more open to international co-operation and to emerge in the global transparency program. For instance, OECD worked for almost two decades to offer an automatic system for information exchange among jurisdiction and it was only on April 2009 when the G20 leaders announced their decision to end banking secrecy worldwide (OECD, 2011).

The preference of transparency in the financial sector pushed Switzerland to introduce significant improvements to its secrecy regime, in recent years, although it still has a long way to go to fully adapt to the international pressure (FSI, 2015). Switzerland being a huge player compared to other secret jurisdictions with a weight scale of more than 5% of the global market for offshore financial services could not resist the global pressure (FSI, 2015). Many actions were taken that are seen as loophole for this “secrecy” myth which is eventually seen to be eliminated soon.

2008 was a turning point in Switzerland solid banking secrecy history. It is the year when the United States began actively to investigate and prosecute senior Swiss bankers,
launching high-profile criminal cases against UBS, Credit Suisse and other banks for being accused helping wealthy Americans evade tax. Swiss could not resist the huge pressure triggered by the 2008 worldwide financial crises. Since the global financial crisis in 2008, new pressures have emerged for transparency, from societies, media and governments around the world to concentrate their effort on fighting financial dirty actions. In this regard, in February 2013, Switzerland had no choice but to sign the U.S. Foreign Account Tax Compliance Act-FATCA- which requires financial institutions to disclose information on U.S. accounts to the Internal Revenue Service-IRS- a department of the treasury in the United States of America on an ongoing, automatic basis. These changes provided an important proof of Switzerland’s inability to face external pressures.

As a result, at the global level banking secrecy’s effect is declining and different forces intervene to diminish its power. Switzerland, the Godfather of secrecy code, had no further excuses and its legacy has been dropped in face of the international forces for transparency and information sharing. Banking secrecy in Lebanon is still at its primitive stage since 1956; consequently achieving trust and confidence in the international financial sector become questionable.

External pressures have succeeded to breach the legend of the unbeatable Swiss banking secrecy. A key lesson from this episode is that countries cannot anymore hide in dark spots and cannot resist international tendencies toward openness, information sharing and collaboration. Globalization and interdependence among countries turns things upside down….What was acceptable and prevailing years ago could be considered a taboo nowadays in conducting banking transactions.

In light of the global end of banking secrecy in the international financial arena, the researcher will go deep in the next section and discuss the specific case of Lebanon.
2.2 Lebanese Banking Sector and the End of Banking Secrecy in Lebanon

Lebanon is a service-driven free market economy that is open to the world in general and the Middle East region in particular with a laissez-faire commercial tradition. Banking is a core competency of this Lebanese service industry and Lebanon occupies a unique situation in the Middle East and Eastern Mediterranean thanks to its firm banking sector (Elkanj & Zreika, 2011) and it is considered a financial hub for banking activities where many wealthy individuals have chosen its banking sector to save their money for being the most sophisticated banking sector in the region according to the latest report issued by the United States Department of State Bureau for International Narcotics and Law Enforcement Affairs (INCSR, 2014).

Despite the fact that the Lebanese economy has witnessed various difficulties and problems, the Lebanese banking sector has maintained its prosperity and remained one of the most successful and prosperous banking sectors in the Middle East. The Lebanese commercial banks, with rapid development since the 1990s, is considered the main driver of the economic performance in Lebanon (Naimy, 2005). Economic and financial data published by the Central Bank of Lebanon and the Association of Banks in Lebanon, indicate that the Lebanese banking industry has been among the most profitable economic sectors in Lebanon in the post civil-war (Naimy, 2005). The banking sector is considered the main glowing sector in the Lebanese economy and it is deemed the growth engine of the Lebanese economy by extensively supporting the private sector and financing the country’s public debt (Chahine & Safieddine, 2009).

Compared to other financial centers in the world, Lebanon highly depends on its banking sector with banking assets almost equal to approximately 400 percent of GDP (FSI, 2015). Moreover, the banking sector is a sizeable sector of the Lebanese economy, approximately 6.2%. (ABL, 2013), it has been among the most profitable growing economic sectors in Lebanon after the civil-war and it provides the major support of the Lebanese economy. Currently, it comprises 59 banks covering a network of 1425 branches with total assets exceeding USD 241 Billion in 2016 and customer deposits exceeding USD 193 Billion with a total of USD 134 Billion in foreign currencies (Bilanbanques, 2017). This sector plays a positive remarkable role in monetary policy and in ensuring stability and consistency in this country.
The importance of the Lebanese banking sector is not limited to the national level. International openness is reflected in the global reach of Lebanese banks. There is currently 365 overseas banking network operating around the world (Bilanbanques, 2017).

Moreover, this small country has long supported foreign investment and it has been recognized as a reliable center for banking activities in the Middle East and North Africa region since it possesses one of the region’s most sophisticated financial infrastructures, capable of providing prime banking services.

Different factors have contributed to making Lebanon a regional financial centre. Although banking secrecy could be considered the main factor to this success, the Lebanese banking sector also benefits from other advantages which contribute to its success. First, the Lebanese currency is freely convertible and no restrictions inhibit the free flow of capital into and out of Lebanon. Second, and with no doubt, the high interest rate on deposits largely contributes to its success.

A main pillar of banks in Lebanon is built on their ability to attract customer deposits. The big portion of deposits in the Lebanese banking sector is derived from the large Lebanese Diaspora that contributes to the main source of the Lebanese banking sector’s profits through the millions of daily transfers sent to their home country (Hobeika, 2009).

It is worth mention that the members of the Lebanese Diaspora widely outnumber Lebanon’s own population which is considered by the IMF unusually large by comparing it to Lebanon’s income level (FSI, 2015). This combination of stringent secrecy law and the large “juicy” Diaspora who benefit from tax exemption make Lebanon a great tax haven and creates a loophole to transparency standards especially when it comes to foreign tax evasion where Lebanon appears to be offering the continuation of secrecy as a exceptional advantage.

Being closely monitored by three independent institutions, the Central Bank of Lebanon, the Special Investigation Commission (SIC) and the Banking Control Commission (BCC) which are vested with broad powers to control the banking sector, the Lebanese banking sector has long been highly-regarded for its openness, stability, and sophistication. Moreover, throughout Lebanon’s history, the banking sector has played an important role
in the private sector as well as having a major responsibility in providing this sector with a sustainable growth. For Mehanna & Yazbeck (2012), the Lebanese banking sector would be the only industry enjoying consistent economic growth in Lebanon.

On January 2017, the International Monetary Fund issued its report covering the assessment of Lebanon Financial stability as a whole during 2016. The report shed light on Lebanon Financial stability and resilience which was preserved for the last quarter century facing regional and domestic economic and political shocks and challenges. According to this study, a stable exchange rate against the dollar, remittances and deposit inflows from abroad, and skillful crisis management and effective oversight were among the factors that have helped preserve confidence in the Lebanese banking sector, contributed to its stability and supported sustainable growth in banks’ profitability (IMF, 2017).

From another perspective and mainly after the worldwide financial crisis, Lebanon has been called upon to address the growing concerns of the international community and the Lebanese banking sector have been subject to heightened international scrutiny which was mainly triggered by the regional instability and local political difficulties. Moreover, at the end of 2016, Basel institute on governance published a report highlighting the AML index scores of the worldwide countries where Lebanon ranked 28 among 149 jurisdictions with an overall risk score of 7.02/10-high risk- (Basel, 2016) compared to a score of 7.01/10 on 2014 with a better rank at 34 among other jurisdictions (Basel, 2014).

In this regard, Chahine & Safieddine (2009) argue that, in Lebanon, there is a need for effective and sound governance practices in banks that are characterized by a high level of deposits and a limited exposure in the international financial markets in investment. These circumstances, among others, triggered close international scrutiny on this sector and broaden criticism about Lebanon’s commitment to transparency and openness, and its willingness to combat illicit financial activities, money laundering and terrorist financing. Since 2001, Lebanon has taken some serious steps to comply with the international standards on transparency although these steps are not seen enough by the international financial system. The first step was initiated by issuing new law concerned to fight money-laundering followed by many amendments to cover more issues related
to terrorist financing and considering tax evasion as a predicate offence to money laundering.

At the end of 2016, Customers’ deposits in the Lebanese banking sector grew by around 4% from 2015 to reach a new high of USD 193 billion, with a dollarization ratio around 70% (Bilanbanques, 2017). This fact of being a dollarized economy gives no choice to local banks but to obey USA rules and conditions in order to gain market access and international presence. Currently, US regulations strive for market transparency and information sharing thereby making the local banks subject to the U.S. legal system even if U.S. regulations are at odds with other countries’ regulations (Cochrane, 2013).

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**Features of the Lebanese Banking Sector:**

- A financial hub for banking activities in the Middle East
- The main driver of the economic performance in Lebanon
- The most profitable economic sectors in Lebanon in the post civil-war
- The only industry enjoying consistent economic growth in Lebanon
- Monitored by three independent institutions
- Stable and resilient
- Skillful crisis management
- Extensively supporting the private sector
- Financing the country’s public debt
- International openness is reflected in the global reach of Lebanese banks.
- Freely convertible currency
- A stable exchange rate against the dollar
- High interest rate on deposits
- Free flow of capital into and out of Lebanon

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**2.2.1 Banking Secrecy in Lebanon**

September 3, 1956 is an important date in the Lebanese banking sector… In this date, The Lebanese famous banking secrecy law, which gave rise to Lebanon’s nickname as ‘the Switzerland of the Middle East”, was born and it was named accordingly: “Law of September 3, 1956 On Banking Secrecy.” Since then, this code has been considered the heart of the Lebanese banking sector.
The issuance of this decree was considered a major achievement for the Lebanese banking sector in the Middle East area as it promotes foreign capital inflow to the country (Elkanj & Zreika, 2011). This fact highly contributes to the growth of the Lebanese Banking sector, fuels the economic growth of Lebanon as a whole, and pushes the whole sector forward to become a major monetary center in the Middle East and a model for banking services among neighboring countries at a time of flourishing political stability in the country.

Banking secrecy is embedded in the Lebanese core values and it is shared among people as part of their financial culture where privacy is a focal point in the Lebanese legal system and saving it could be strongly linked to economic competitive reasons. In this regards, the Lebanese banking industry flourished between the 1950s and mid-1970s, due to a strict banking secrecy law, which was introduced in 1956 (Bris, 2009). Since then, the law was never updated or amended despite the sky-high improvements in the banking activities worldwide.

The banking secrecy is absolute in Lebanon and limits all financial entities regulated by the Central Bank of Lebanon to complete secrecy regarding clients' personal and account-related information. Anonymity is safely secured by this code, coded accounts can be opened and a safe can be leased for a client.

Secrecy law is a duty that must be closely observed by all concerned parties for the interest of the public and of those who deal with banks. Secrecy can only be lifted in only very limited circumstances: (i) with the written authorization of the client or the beneficial owner; (ii) in the event of bankruptcy of the client; or (iii) in the event of litigation between the bank and its client resulting from their banking relations, (iv) in case of actions of illegal enrichment upon the request of the judicial authorities. It is worth mention that sharing information regarding debtor accounts only is authorized by the law.

Accordingly, banks tend to implement stringent controls to ensure that their staff respects their obligations since violation of banking secrecy is considered as a misdemeanor punished under the Criminal Code. The Law provides that violation of its provisions is punishable by imprisonment of three months to one year as well as civil liability.
Moreover, a person charged for this violation is prohibited from performing the profession of a banker or being a bank’s employee.

The protecting legislation of banking secrecy, as laid down in the Lebanese banking secrecy law of September 3rd, 1956, subject all banks established in Lebanon as well as foreign bank with branches in Lebanon to uphold the ‘secret of profession’. Such law bounds all banks’ managers and employees, who are exposed to the bank’s activities to reveal any information, related to their clients names, assets or holdings to any party whatsoever, whether such party is an individual or a public authority, be it administrative, military or judicial.

Due to the use of this strong legal framework which encompasses a very strict rules regarding customer privacy lead Lebanon to become an attractive financial centre in the Middle East and for this reason legislators have demonstrated a staunch unwillingness to amend it (Mousa & Achkar, 2002).

61 years have passed since the issuance of the code that is still to date in its primitive form without any type of adjustments although many things have change in the financial industry since the promulgation of this Law. Cross-border financial transactions flourished in the country in a time characterized by serious fighting against the criminal and unlawful use of the financial system. This fact put the whole Lebanese sector under close scrutiny by the international system for being an active player in cross-border transactions. As a result, a new chapter of global watching and supervision has shined.

The 2015 results of the Financial Secrecy Index (FSI), which utilizes a blend of qualitative and quantitative data to end up producing a measure of each jurisdiction’s contribution to the global problem of financial secrecy, ranked Lebanon seventh due to a high secrecy score of 79 based on 15 verifiable indicators distributed among 4 groups related to knowledge of beneficial ownership, corporate transparency regulation, efficiency of tax regime, and international standard and cooperation (FSI, 2015). This high secrecy score of 79 places Lebanon among the worst in the world regarding transparency index. Moreover, according to the most recent Transparency International Corruption Perception Index, Lebanon has been classed among the top 50 most corrupt countries in the world, and ranks 14 out of 19 countries in the Middle East North Africa region (FSI, 2015).
Being motivated by the desire to maintain its legitimacy in the international community, the Lebanese banking system had made major efforts to strengthen its compliance with international standards by improving its legal regime, establishing new institutions, developing new regulations, and implementing higher standards of industry practice. For instance, significant progress has been made to further strengthen Lebanon’s financial integrity framework specially in the field of fighting money laundering and terrorist financing by establishing the Special Investigation Commission and by issuing new laws and regulations, the Lebanese authorities have managed till now to stand firm and steady in front of the international pressure to replace the Banking Secrecy Law and some gaps remains prevailing. Still, the country’s regulatory regime, characterized by stringent banking secrecy law, is always a main controversial point regarding its government’s ability to identify and confront illicit activities. In this regard, Lebanon has been called to strengthen its overall efforts to disrupt and dismantle money laundering and terrorist financing activities (INCSR, 2014). For instance, “Lebanon appears to be offering the continuation of secrecy as a unique selling point” (FSI, 2015). In reality, a scope for improvement is essential especially in the presence of the banking secrecy law which by itself that jeopardize Lebanon’s long-term interests as a modern, internationally active financial center since this law “limits supervisory analysis of bank exposures to particular counterparties, poses challenges for the effective implementation of the AML/CFT framework, and risks attracting clients that may compromise financial integrity.” Banking
secrecy laws hinders supervisory access to information on individual depositors and in conducting necessary analyses across the banking system which is not in compliance with the international best practices especially that the lack of full access delays prudential supervision and regulation and in monitoring the financial market especially that some related transactions could not be identified and as a result final beneficial owner of certain accounts may not be easily identified (IMF, 2017).

According to the IMF latest report issued in 2017, satisfying banking secrecy law requirement is considered an obstacle for compliance staff of banks in conducting their duties mainly in the field of conducting necessary customers due diligence when it comes to holders of secret accounts and safe deposits. Moreover, in practice, banking secrecy appears to have been lifted for the purposes of information exchange with other competent authorities in relatively few cases which contradict international best practices regarding transparency, fighting tax evasion and information sharing (IMF, 2017).

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<th><strong>Features of the Lebanese Banking Secrecy Code:</strong></th>
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<tr>
<td>- Secrecy law is a duty that must be closely observed by all concerned parties for the interest of the public and of those who deal with banks.</td>
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<tr>
<td>- Secrecy can only be lifted in only very limited circumstances.</td>
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<td>- Banks tend to implement stringent controls to ensure that their staff respects their obligations since violation of banking secrecy is considered as a crime punished under the Criminal Code.</td>
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The G20 indicated that the veil of secrecy, including bank secrecy, has been pierced and there is a worldwide need to remove all barriers that hinder information exchange (Zucman & Johannesen, 2012). Although many countries that used to do banking based on stringent secrecy law had no choice but to let it go, Lebanon still focus on secrecy and
consider it as a main advantage in its financial sector and continues to float against the strong wind of global transparency and international standards.

On one side, François Bassil, President of the Association of Banks in Lebanon, said in 2015: “Lebanon has no intention to abandon the banking secrecy law, although Switzerland and other countries may remove this law eventually” (FSI, 2015). On the other side, the US crackdown on tax collection through the Foreign Account Tax Compliance Act- FATCA- makes the precious banking secrecy in Lebanon costly to preserve due to the spreading of regulations promoting transparency. From 2013 onwards Lebanon once again faced massive international pressure to restrict its banking secrecy. In June 2013, Lebanon signaled its willingness to accept an automatic exchange of information under FATCA regime to the US authorities (Cochrane, 2013). Moreover, Lebanon confirms its commitment on applying the Common Reporting Standards-CRS- on due time by accepting to automatically exchange financial account information for tax purposes starting 2018 (OECD, 2017).

The 2008 worldwide financial crisis along with the global trend to fight terrorism gave a legitimate right for many critics to raise their voices louder toward more financial transparency and therefore abolishing secrecy rights since “dealing with financial intransparency is at best costly and at worst dangerous to life” (Emmenegger, 2014). In this regard, the bank secrecy laws and their protective privilege in a number of financial center jurisdictions has been reconsidered since it was not clear anymore whether the laws are protecting real privacy interests or are they protecting the account holders against accountability under the law (Blum, Levi, Naylor, & Williams, 1999).

Eliminating banking secrecy is considered a major change in the Lebanese banking sector which could be facing an identity change since it was always well known for the secrecy law. An attempt to alter this historical pillar is not easily implemented. Albert and Whetten (1985) state that “organizational identities are those characteristics collectively understood by an organization’s members to be central, distinctive, and enduring.” In this regard, change is considered more difficult to be adopted and slow and it could be a reason for a possible conflict of interest among the different levels of managers who will assess the proposed change each from his own perspective. This fact will create a new
state that requires banks’ to be ready to be able to adapt efficiently and effectively to the international quest and call for the board of directors, who are responsible of setting banks’ long term strategies, to introduce necessary amendments and appropriate changes in their strategies to build on new competitive advantages because identifying organizations’ core competencies is necessary to achieve organizational goals (Prahalad and Hamel, 1990). Therefore, clarifying new core competencies is needed in the Lebanese banking sector. Those new competencies will be considered the roots of competitiveness.

As a result, the main strength of the Lebanese banking sector, illustrated by banking secrecy code, is jeopardized in face of the international pressure to tighten secrecy laws. The long-run forecast for the Lebanese financial sector cannot rely solely anymore on the strict secrecy rules; rather adaptation to regulatory changes and fierce competition based on other strong pillars become mandatory (Radu, 2014). Following the world wide trend for higher financial transparency and information sharing standards, this thesis aims to explore the level of readiness of Lebanese banks to adapt to an environmental pressure illustrated by the international tendency to eliminate banking secrecy.

2.2.3 The Fading of Secrecy Law in Lebanon-A Progressive Perspective

Transparency is no longer a choice but rather a destiny without any possibility of denial. Globalization and the technological advancement make it mandatory for organizations to adopt transparency standards to survive in this new era of banking services.

Till now, Lebanon has handled to resist international criticism to eliminate completely the Banking Secrecy Law which is perceived as a “hotbed for illicit activity” (FSI, 2015) by the international regime. However, new laws and regulations have been gradually enacted which have direct effect in decreasing the ultimate power of secrecy. April 20, 2001 is an important date in the Lebanese banking history…it is the date of issuance of Law No. 318 “Fighting Money Laundering” which has narrowed considerably secrecy effect. This law established the Lebanese Financial Investigation Administrative Unit known as the Special Investigation Commission which was granted full authority to lift banking secrecy to the competent authorities on accounts opened with
banks or financial institutions and suspected to have been used for money laundering or terrorism purposes. Moreover, in the effort to strengthen cross-border cooperation and information exchange, the Lebanese special investigation commission, which is responsible to manage compliance related issues, exchanges information with its foreign counterparts. This fact is considered another successful step of transparency over secrecy. On 2013, a new challenge has arisen and Lebanon once again faced massive international pressure to restrict its banking secrecy. Lebanese banks, among other financial institutions, had no choice but to comply with the US crackdown on tax collection under US Foreign Account Tax Compliance Act (FATCA). FATCA targets tax non-compliance by U.S. taxpayers with foreign accounts and it focuses on reporting by the financial institutions. Lebanese banks had no choice but to waive secrecy and report full information to the Internal Revenue Service – IRS- to comply with the US regulation. Lately on November 2015, the Lebanese parliament agreed on three new financial laws to satisfy international requirement. For instance, law 42 was issued to fight cross border transfer by obliging those entering Lebanon to declare the amount of money they are carrying if it exceeds $15,000 and in case of wrong declaration, a penalty will be posed. Another law, number 53, was approved regarding taking all necessary measures to cut off resources used for terrorism which authorized the Lebanese government to join the International Convention for the Suppression of the Financing of Terrorism, signed in New York on 1999. Last but not least, many non-banks financial institutions and non-financial businesses and specific related professions become covered under the umbrella of fighting and reporting money laundering activities and terrorism by the law 44. On May 2016, the Lebanese central bank has issued two new circulars, BDL Basic Circular 137 and BCC Circular 286, ensuring full compliance between local banks practices and the international banking community to implement international regulations regarding the prevention of access by Hezbollah to international financial and other institutions and to ensure full conformity with the laws, regulations, procedures, sanctions and restrictions adopted by international legal organizations or by the sovereign authorities in this regards. Moreover, the Lebanese central bank has amended another circular, BDL Intermediate Circular 421, to control financial and banking operations for
fighting money laundering and terrorism by adding more responsibilities on the shoulders of board members.

On October 2016, the Lebanese legislator had no choice but to repeal a previously issued law 43 related to exchanging tax information with other countries on the basis of treaties to be signed to fight tax evasion and replaced by virtue of Law 55 which guarantee spontaneous exchange of information between Lebanon and any foreign state.

On July 2017, the Ministry of Finance in Lebanon-MOF- issued the decree number1022, related to the process of implementing the Exchange of Tax Information law in compliance with the international recommendations issued by the Global Forum on Transparency and Exchange of Information for Tax Purposes and by the Organization for Economic Co-operation and Development-OECD-. Moreover, based on the decree issued by the Lebanese Ministry of Finance, the central bank of Lebanon- BDL- has issued the basic circular number 139 on 21/7/2017 related to the common reporting standards-CRS-setting the same requirements as the Decree. Consequently, Lebanese financial institutions have to report and keep records of all reportable accounts to the Lebanese authorities who are required to submit electronically the information received from the reporting financial institutions under supervision to the competent authority-SIC- to external parties. For instance, figure 3 below highlights the progressive steps taken in the Lebanese banking sector which directly affect secrecy privilege.

Although passing these laws were refuted by many parties in the parliament for being a threat to banking secrecy, the parliament had no choice but to pass the stated laws after pressure from the international bodies and the risk of being adding on the list of non cooperative jurisdictions that have primary money laundering concerns. The Lebanese authorities were coerced to take these steps in order to avoid any reputational risk that Lebanese banks and financial institutions might suffer from, while saving the national interest that entails retaining good relations among the Lebanese banks and financial institutions with their correspondent banks in the international financial market.
As a result, there seems to be no more places to hide under the new international regulatory framework since banking secrecy is really coming to an end worldwide. While the global community is working hard to ensure full disclosure of information and highly transparent financial world, further steps must be expected…These steps could weaken secrecy even further.

Eliminating banking secrecy in Lebanon may have major implications on Lebanese banks’ strategies and therefore anticipating change to strengthen their abilities to face this “threat” shall be of primary concerns for the Lebanese banks.

Because one of the main organizational core competencies in today’s turbulent environment where organizations are facing exceptional levels of change is referred to their ability in managing change (Brown & Eisenhardt, 1997; Romanelli & Tushman, 1994), organizations have to “do the right things” by introducing necessary changes even when no return is guaranteed. So far, no changes have yet been introduced to amend the Lebanese strict financial secrecy law as a code which remains the rule of the banking game. Is Lebanon ready to adapt to change once there is no more room to hide under the secrecy veil?

After presenting the terms of the banking secrecy code in Lebanon and its importance in the Lebanese banking sector, the researcher found interesting to present, in the next section, real cases, from the international and local Lebanese financial industry of top banks which failed after a legend of success due to the secrecy privilege.
2.3 Real Cases Overview

Due to globalization and the blurring of boundaries among jurisdictions, competition among countries to provide financial facilities reaches sky-high. Some countries choose to provide secrecy privilege as a competitive advantage to attract clients from all around the world and to boost up their nation’s economy. The result of this decision was devastating in many circumstances and it entails large banks in the world.

With time, world’s biggest banks were closely concerned and involved in the development of the global financial industry were “‘finance’, in the current era, is not just a sector of the economy; it is at the core of a new social settlement in which the fabric of our society and economy has been reworked” (FSI, 2015). For instance, new notions and beliefs start to take place and secret-haven jurisdictions start to be considered as curse against clean and legitimate financial transactions since secret financial institutions providing anonymity for the beneficial owners become extremely attractive to criminals for many reasons including the ability to cover money laundering transactions (including tax evasion) and terrorist funding as well as other financial fraud.

Many real international and local cases taught a lesson to all jurisdictions that operate under secrecy privilege and sent a clear message to banks operating under this shadow stating that either jurisdictions let secrecy goes, or the bank suffers and eventually goes. The growing threat of terrorism and money laundering practices worldwide validate the urge to look again at secrecy privilege granted by the law of banking secrecy. Without banks’ cooperation, ethical and transparent practices, it is a mission impossible to fight worldwide financial crimes.

2.3.1 International Cases

Many secrecy-related scandals cursed the international banking sector. Weglin bank and Leu bank are only two examples to be presented from the international globe-Switzerland in specific- in this perspective.

**Wegelin Bank:**

Defunct in 2013, Swiss Based Wegelin bank, the oldest bank in Switzerland and the 13th oldest in the world, helped more than 100 American citizens to evade the US tax
obligations of over $1.2 billion between 2002 and 2010. Although the bank's practice is legal under Swiss law and it only had branches in Switzerland and none in the United States, the bank agreed to pay $57.8 million in fines to US authorities for being pleaded guilty for money-laundering and tax evasion (Foulkes, 2013). Wegelin bank, soon after the court announcement, admitted that it was aware that the conduct of their customers to evade paying taxes in their home country was wrong.

In 2013, Swiss was under global pressure, mainly from the US, to shed light on dark spots by revealing information about customers’ accounts. This pressure, among other factors, led to the collapse of Swiss oldest private bank-Wegelin Bank- a bank that first launched its operations in 1741 had no choice but to close its doors because it used the banking secrecy law in assisting their customers to escape paying taxes back to their home countries.

The 270 years of Wegelin’s history could not favorably serve its reputation and save its existence (Raymond, N. and Browning L., 2013). Even though the bank had no branches outside Switzerland, the excessive burdens of US regulations were strong enough to cause the bank to surrender and discontinue its banking operations.

Wegelin’s performance rapidly deteriorated and it had no choice but to shut down after only one year of being accused by the US government. According to Barth et al. (2013), Banks’ level of efficiency is deemed negatively related to the implementation of rigid regulations and limitations on its activities. In this regard, the accused bank moved around 700 of its employees in January 2012 and trades its non-U.S. assets to Notenstein Privatbank which was subsequently sold to the Raiffeisen Gruppe and the prestigious Wegelin ended up with only 15 employees as of February 2012.

The collapse of the long-established bank that was believed to be “too big to fail” had left serious scars on the entire body of Swiss banking sector, and it left under deep shock the long tradition of Swiss banking secrecy.

**Leu AG Bank:**

Another bank failure is allied to the big Swiss private bank, headquartered in Zurich, which opened its doors in 1755 and ceased operations in 2007 when it was merged with Credit Swiss bank.
Despite being one of Switzerland's oldest banks and having many wealthy famous customers over the years, two major scandals in the 1980s were enough to cost the bank its autonomy. One of the scandals was due to the strict applied secrecy law where an investment banker in Bahamas branch took advantages of the strict banking secrecy law and built up an account for himself of over $10 million by trading almost entirely on inside information that he acquired from his work (Vise, 1987). More seriously, a large number of suspicious trades through a broker at Merrill Lynch, who also traded for his own benefit, were questioned by Leu A.G. bank managers’ who failed to track the whole operation since they were unable to pierce the offshore veil of darkness. This scandal, among others, left no room to Leu A.G. bank but to merge with credit Swiss bank in 1990.

As a conclusion, Swiss government tried hard to square an impossible circle by trying to satisfy foreign governments’ trough a specific deal under the condition of protecting their traditional banking secrecy. All their attempts failed and many Swiss banks cease their operations at the international level.

The very tight US regulations negatively affect Switzerland’s oldest banks’ activities and the closing of those banks, which were considered off-limits for criminal suits, rang the bell to the worldwide banking industry regarding the necessity of complying with U.S. laws by stepping ahead and taking the necessary actions in this regard.

### 2.3.2 Local Lebanese Cases

Many researchers previously claim that the crime of money laundering is supported by bank secrecy laws (Al-Nuemat, Abu-Salma, Alzoubi, & Mohammad, 2014). Providing secrecy create a fertile land for illegal activities including money laundering and terrorist financing by facilitating the concealment of the illegal source and use of funds. Hence, controlling money laundering and financial crime should start by dealing with the secrecy law first.

Lebanese banks were not always in great shape. Some banks already blurred away due to certain scandals in the sector. Below are two examples in this regard:
The Al-Madina Bank:
It is hard to remember a more frustrating and threatening scandal to the reputation of Lebanon’s banking system than AL-Madina bank case. Bank Al-Madina, a Lebanese bank, collapsed in early 2003 after being accused of embezzlement, misappropriation of funds, fraudulent practices, mismanagement, and failure to abide by standard accounting practices (Prothero, 2005). The collapse of Al-Madina banks sent shockwaves in the Lebanese banking sector and the Middle East especially after the announcement of being charged by looting around $1.65 billion (Gambill & Abdelnour, 2004 & Prothero, 2005).

The collapse of Al-Madina was a shocking outrageous failure in the Lebanese banking sector and it was considered the country's largest banking scandal in over three decades. Over a billion dollars of depositors' assets disappeared and billions of dollars were laundered for illegal terrorist organizations.

In and out financial transactions though Al-Madina Bank were veiled and wrong data reporting were sent the Banking Control Commission (BCC), the responsible unit in the central bank of Lebanon, which is due to bank secrecy law not allowed to check on depository accounts. This fact worsens the case of being caught on appropriate time which could otherwise facilitate the allegation of money laundering that the bank deemed accused by many years after the wrong doing.

Lebanese Canadian Bank:
Lebanese Canadian bank-LCB- established in 1960, was among the top ten banks in Lebanon based in Beirut and maintains a network of 35 branches in Lebanon and abroad. On February 2011, LCB was classified by the US as a financial institution of primary money laundering concern for the bank’s role in facilitating the money laundering activities of an organization that is deemed by the US as a terrorist narcotics trafficking network (Schellen & Nash, 2016). After this accusation, U.S. financial institutions were prohibited from opening or maintaining financial accounts for LCB after having previously benefitting out of extensive correspondent accounts with banks worldwide, including several U.S. financial institutions. The bank was accused for assisting a local organization that is deemed by the US as a “narcotics trafficking association” to hide the sources of its wealth, and to finance its illegal activities.
Sooner after the allegation and on September 2011, the Lebanese central bank -BDL, cancelled the banking license of LCB and delisted the bank from the registry of banks published by BDL. Consequently, LCB’s shareholders had no choice but to sell the bank to another financial institution.

This review of the real life examples shed the light on exploring the potential benefits and drawbacks that secrecy code offer to the banking system worldwide where many researchers have elaborated in this subject and a summarized result is presented below in the next section.

2.4 Pros and Cons of Banking Secrecy Law Lifting
Banking secrecy has been brought under close scrutiny by the global community and this pressure reaches the ceiling of lifting it in many jurisdictions. Zattonni & Cuomo (2008) argues that globalization and openness among territories increase the pressure on countries that still believe in secrecy to lift its veil and shed light on their actions by boosting up corporate governance practices to increase the level of efficiency and effectiveness in their organizations. This step of modifying and amending governance regimes is neither smooth nor easy because they are part of the core culture of those countries and embedded in their shared values and believes as their traditions.

For many defenders, secrecy is seen as a type of customer confidentially and data protection. It is a right that is seen as a main instrument to ensure democracy regime and competition standards that protect globalization (Bris, 2009) and eliminating it will only lead to relocation of deposits among jurisdictions (Zucman & Johannesen, 2012). Moreover, according to Bris (2009), by ending the era of banking secrecy, countries will enter in a battle that can ultimately undermine democracy and competition, which will eventually end globalization since democracy and competition are considered its main pillars.

With no doubt, bank secrecy has many advantages especially regarding protecting individual privacy and right of non-expression. This fact attracts depositors at the national level and hinders them from leaving the local secret financial system as well as attracting foreigners who are searching for protection for their financial proceeds. On the other side, it is hard to deny that those proceeds hided in secret jurisdiction could be
resulting from economic crimes related to money laundering or other predicate offences and in this way secrecy could be playing a major role in attracting dirty money in the national economy (Al-Nuemat et al., 2014).

Although, in some circumstances, secrecy and opaqueness may lead to better performance or even superior efficiency but it is only in the short term. To guarantee survival and sustainability, organizations have no choice but to favor transparency over silence especially that reality has put forward something less encouraging by preferring secrecy over transparency. For instance, Wegelin and Leu A.G. Banks are just two large scandals to be mentioned in this perspective from the Swiss regime.

Banking secrecy has been considered a prominent source of concealment, fraud, and illegal actions. Accordingly, for many critics, banking secrecy is considered a main tool that can be used to build financial intransparency and thereby to conceal the real ownership of financial assets (Emmenegger, 2014)

Some previous researches have already spotted some opportunities in the collapse of banking secrecy. For Picard & Pieretti, (2011), reputation is a major asset of a financial sector and abolishing secrecy laws is seen as a reputation gain that should be captured as an incentive for banks by responding appropriately. Furthermore, despite the fact that tax havens have a strong economic interest in bank secrecy, disposing of bank secrecy could have a positive effect on a their image and reputation, which could help these havens to attract other financial activity, such as the incorporation of investment funds (Zucman & Johannesen, 2012). Moreover, according to English & Shahin (1994), monetary, political, economic, social and fiscal implications could be some of the results of eliminating banking secrecy. In addition, the latter will also have effects on exchange rates, investment, national income, and balance of payments. Hobeika (2009) found out that although the ability to attract customer deposits will decrease by eliminating banking secrecy, the interest rate on deposits is most likely to increase to offset the effect of removing banking secrecy.

A survey, of nearly 50 banks conducted by accountancy firm KPMG and the University of St Gallen, shows that knowing the customers’ habits and preferences would make it easier for banks to delight their customers who are expecting a high level of personalized
and fully customized products which will ultimately increase sales and eventually boosts shareholders’ profits. For instance, retail banking is currently facing enormous challenges related to heavy regulations and high customers’ expectations. And protecting customer interest becomes a major concern aiming to providing the client with the most appropriate and suitable banking products that the customer really needs to satisfy his needs. In this regard, abolishing banking secrecy principles has a positive effect on retail banks by allowing them to collecting big data about customer behaviors and preferences that will eventually benefit retailer banks and the customers.

Add to this, jurisdictions that provide secrecy privilege are seen as facilitators of a worldwide corruption schema which distorts markets and burry efficient practices. Embezzlement, fraud, insider trading, money laundering, terrorist funding, tax evasion are few outcomes that fertile in secret shadow environments and reduce the attempt to create accountable modern nation states. Alike, rich and poor countries are being negatively affected by these criminal practices and hence the successful avoidance of such threats is quite difficult to be achieved in the presence of the shades of secrecy (FSI, 2015).

Many researchers have studied the effect of banking secrecy from various perspectives and they end up presenting its impact on different dimensions. For instance, the researcher presents below other researches’ results in this field.

2.4.1 In Leading to Economic Inefficiency

"Secrecy is economically inefficient and when organizations are opaque and interests are secret, decision-making can and does distort efficiency……" (Hebb, 2006). For instance, banks play a crucial role in the economic life of countries by creating productive investment from available resources. Those financial institutions should have the ability to enhance economic growth by increasing the total quantity of monetary capital available to entrepreneurs, improving the quality of investments, and develop an efficient link between the sources and uses of funds to lower the cost of production (Fohlin, 1998).

The issue of banking secrecy poses sharp challenges for global governance. Underground economy and shadow banking is enormously increasing along with the growth of cross-
border and transactions fueled by illegal businesses. One of the most common logic behind new unhealthy economic state is related to tax avoidance. Funds are flying to secrecy jurisdictions in illegal forms and capital movement is highly flourishing. Eventually, there is high probability that this fight of capital will lead to major conflicts among jurisdictions and many economists believe that this misuse of low tax secrecy jurisdictions has a negative net income on economic welfare (OECD, 1998).

Because the banking system is a crucial component of the global economy, its level of competence and its governance framework has been brought under close scrutiny in the last few years. Saving funds by itself in the banking system can not lead to a boom economy unless it was transformed, through efficient channels, into successful investment. Therefore, building a strong financial system, based on full disclosure trust and confidence, is a main pillar of strong economies. In this regards, OECD member-states believe that a main cause for domestic budget-deficits could be the result of secrecy tradition in the financial sector (OECD, 2011).

Banks are essential for each country’s economy and financial systems are becoming remarkably interconnected in this globalized economy. In this essence, international cooperation among nation becomes a must to protect the economies of different jurisdictions from many diseases related to corruption, fraud, drug trafficking and many other transnational organized crimes that may eventually destroy the world major economies. Banking secrecy could facilitate the infection by these economic diseases and make the cure hard to reach. Moreover, these diseases are highly contagious since economic disturbance is scrolling down from one country to the other quickly. This fact points out the value of intensifying international efforts to ensure that financial institutions are competent enough to take the necessary effective corrective action on time to avoid further financial and economic crisis. In this essence, international consultation, exchanges of information, full disclosure, less opaqueness and coordinated action plans are necessary to ensure stable economies where the chance of disturbance is minimal.
2.4.2 In Curbing Transparent Practices

In the governance and financial literature, transparency refers to the regular disclosure of information and it leads to an open society since it is at the heart of a well developed financial system.

Financial institutions cannot achieve trust and confidence without transparent conscientiousness given that investors favor high level of transparency and it was proved that the level of corruption is lower in economies that apply transparent practices and sound information disclosure in their banking sector (Verhezen & Morse, 2010).

The benefits of transparent practices are numerous. From the public perspective, governments hardly function well in the shadow of secrecy due to its darkness effect on the markets (Verhezen & Morse, 2010). From the organization perspective, it has been proven by previous studies that regular disclosure of information has positive results on the bank’s capital (Uren, 2003) and reputation (Bennis, Goleman, & O’Toole, 2008). Moreover, information disclosure is positively associated with market liquidity and negatively related to the cost of capital. Therefore, complying with transparency standards and codes permits bigger access to global competitive financing and worldwide experienced and well trained talent (Verhezen & Morse, 2010).

Moreover, creating the ultimate customer value and ensuring their satisfaction are the main objectives for organizations hence the focus on creating and inventing the necessary tools that will lead to this end. Customers favor more transparent actions in a highly competitive global environment to eliminate possible barriers that hinder them from taking the best decisions since improvements in information disclosure usually result in better recommendations by financial analysts and thus lessen risk, it also results a higher share price and upholds stock liquidity due to less information opaqueness; and reduces capital costs because of lower information risk (Grűning, 2007; Verrecchia, 2001).

As a result, the legal regime in a country should promote transparency over secrecy to be able to face uncertainties of the coming future, where companies have no choice to prosper but in an open environment along with appropriate risk management perspectives. The free flow of information paves the road toward building an open culture fortified by the power of transparency within an organization and between the organization and its several stakeholders.
2.4.3 In Supporting Money Laundering and Terrorism

“Money laundering is a serious crime that affects the economy as a whole, impeding the social, economic, political, and cultural development of societies worldwide” (Al-Nuemat et al., 2014)

Since the last financial crisis, international efforts against countries with bank secrecy laws have increased to face the financial challenges related to money laundering. As a simple definition, money laundering is an economical crime and it is about concealing the illegal source of fund and making it legitimate in the international financial system.

The need for enhanced transparency and financial integrity in national financial systems is more important than ever. Any effort to control money laundering and financial crime must address the secrecy issues first (Al-Nuemat et al., 2014).

There is no doubt that criminals involved in money laundering are not saving efforts to abuse the worldwide financial system to commit their structured global crimes. The 2008 financial crisis along with the cases related to billions of fines paid by non compliant banks have brought under inspection the extensive use of the banking secrecy for illegal reasons. Reporting suspicious activities to authorities is a must regardless of the secrecy law. “The confidentiality of information is now considered a secondary matter” (Al-Nuemat et al., 2014).

"The crime of money laundering is supported directly or indirectly by bank secrecy laws…” (Al-Nuemat et al., 2014). Criminals involved in the laundering schema refer to hide the lucrative funds of their financial crimes in secret jurisdictions to benefit from the freedom of hiding the source from which they have earned the money in the banking sector while enjoying the ultimate faith that they are well protected, through the power of law, by banking secrecy that bind the bank with its customers by a rigid commitment.

Those criminals are even attempting to conquer economies by itself to rule it and take control of its systems which will lead to further corruption and disturbance regarding economic expansion and improvement (Al-Nuemat et al., 2014), which will eventually sneak to other jurisdictions due to high connectivity among nations.

For Picard & Pieretti (2011), the effort of combating money laundering and terrorism is threatened by bank secrecy. Money launderers are always attracted by offshore financial havens to conduct their illegal activities. In this regard, English & Shahin (1994) argues
that there is a conflict between banking secrecy and the fight against money laundering since many illegal actions taking the forms of tax evasion, hiding funds obtained through fraud, insider trading, money laundering, bribery, corruption, and government undercover activities prosper due to secrecy law.

Money laundering and bank secrecy are closely related and the effective fight against financial crimes cannot take place in the presence of confidentiality laws (Picard & Pieretti, 2011). International institutions do exercise huge pressure on offshore financial centers to fully comply with anti-money laundering regulations. Moreover, many communities of practice in the compliance regime find that the current applicable soft-law practices are inefficient in combating money laundering by financial institutions (Picard & Pieretti, 2011).

2.4.4 In Supporting International Tax Evasion

At the global level, fighting tax avoidance is becoming a top priority in the last decades. Secrecy jurisdictions are viewed by the rest as main facilitators and promoters of tax evasion since they are profiting from economic exchange on the favor of the country in which production takes place or where the related party to the transaction live for tax purposes (Palan, Murphy, & Chavagneux, 2010). Add to this fact, that the country were the actual economic activity is taking place is also environmentally getting harmed and paying an ecological cost of production for the favor of countries who benefit from the market offerings produced and exported.

Secrecy is a main condition that facilitates tax evasion (Schwarz, 2011). Tax cheaters are always attracted by offshore financial havens to hide their deposits and avoid paying legitimate taxes in their home countries. During the financial crisis, the fight against tax evasion became a political priority in rich countries and the pressure on tax havens mounted.

One of the most essential part of good corporate governance rely in the hands of combating tax avoidance, OECD urges corporate boards to perceive tax compliance as necessary to build a firm corporate governance framework within their organizations.

Moreover, tax avoidance is nowadays considered a predicate offense for money laundering by FATF. In this regard, authorities have no choice but to totally fight tax
evasion in order to be considered cooperative financial center by FATF or they will risk the possibility of being alienated from the international financial system for being involved in the management of financial resources deriving from tax evasion. According to Zucman & Johannesen (2012), "Exchange of information between countries is the obvious solution". G20 countries tried their best to fight against tax evasion and to reload deposits properly back into their home countries by compelling tax havens to sign bilateral treaties and accordingly share bank information to fight financial crimes and eventually ending bank secrecy but the result was not as expected. Offshore funds globally almost did not change, but rather were relocated to offshore countries that have signed less treaties and have less stringent rules and regulations as tax haven.

Placing a request for information is associated with a small probability of detecting tax evasion because it requires prior knowledge which is extremely hard to come about and in this regard, according to many critics, automatic exchange for information is by far better to fight tax evasion because it allows tax authorities to obtain comprehensive data about income earned by domestic residents in foreign banks. Under this standard, jurisdictions should obtain financial information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis. For instance, many major financial jurisdictions have already committed to adopt automatic exchanges in 2017/2018 and in the few more years to come which is seen as the first stop toward effectively ending the history of banking secrecy.

Although, these information exchange doctrines are considered a victory against secrecy havens and they pave the way for more international pressure to bring information exchange as a standard for cooperation among worldwide nations, automatic exchange is much more efficient to effectively bring tax havens to a dead end.

**2.4.5 In Curbing Human Rights**

Human rights are negatively affected by secrecy law. In light of the solid international effort toward transparency which have lead tax haven jurisdictions to work harder towards equality. Elimination of tax havens can improve welfare levels and boost up equality among nations (Picard & Pieretti, 2011).
The rights of having sufficient food, clothing, housing, health care, clean water, sanitation, and education are well resented in the UN Covenant on Economic, Social, and Cultural Rights. Wealthy individuals could be hiding their returns on secret jurisdictions to avoid paying taxes which are considered necessary to provide those basic needs. In this case, human rights are negatively affected by secrecy laws. “The annual tax gap for developing countries caused by bank secrecy is estimated to range from over $100 billion to several times that amount......bank secrecy has a significant human rights impact if governments of developing countries are deprived of resources needed to meet basic economic rights” (Cohen, 2013). As a result, enjoying the basic human rights in developing economies is hard to be achieved in the presence of bank secrecy and it is beyond doubt that full disclosure is necessary.

2.4.6 In Delaying Innovation

In the current prevailing business environment which is flagged by high level of turbulence, banks have to be very innovative to stay competitive since technological innovations are considered a main cause of change in most organizations. Operating in a simple well anticipated banking industry is a statement from the past. Currently, the banking industry is considered one of the most dynamic complex and competitive sectors (Agboola, n.d.)

Organizations are faced by new and higher demands where customers seek innovative friendly solutions (Gustafson & Widerlund, 2010). One of the roles played by organizations is to fulfill customers’ needs and to delight them by introducing innovative products and services that they desire (Suarez-Villa, 1993).

The financial sector and more specifically the banking sector in their turn got affected by the information technology invention where internet banking, electronic payments, security investments, information exchanges are just some examples (Berger, 2003). Traditional banking is no longer what customers seek; implementing reforms in the financial sector is a difficult process as the system is basically oriented towards stability rather than change (Kurup, 1996). Banks have benefited substantially from technological innovation to strengthen their bases of competitiveness (Oluwatolani et al., 2011).
Technological invention is considered one of the most significant causes of socioeconomic change (Suarez-Villa, 1993). Over the past few years, hi-tech innovations have introduced significant changes in the socioeconomic environment. Almost every sector has been affected by technology and innovation. One of the main sectors that was concerned is the banking sector where banks have benefited substantially from technological innovation to strengthen their bases of competitiveness (Oluwatolani et al., 2011).

Moreover, because customers are at the heart of every strategy, banks are called to amend their traditional operating practices to remain viable in the decades that follow (Agboola, n.d.). The role of the banks is no longer simply to lend financial support to the public sector, as more creative forms of banking emerged. Diversification in customer service has become a goal of many banks with growing.

Moreover, organizations everywhere face intense global competition and high expectations by customers. A common mission in organizations reveal in becoming creative engine capable of producing innovating products that customers need but have not yet even imagined (Prahalad and Hamel, 1990). Customers nowadays, in this knowledge based industry, are becoming more and more sophisticated regarding products and services that they request (Oluwatolani et al., 2011). Therefore, concentrating on what customers really searching and denying unnecessary other aspects in the banking experience along with being innovative and efficient is considered a top priority in creating a successful banking strategy.

In addition, the growth of the internet and the use of electronic commerce have raised many questions related to financial secrecy laws in financial centers. For instance, in recent years the banking sector in Lebanon has finally started to break from the conventional frame it was held in since the civil war. Globalization pushed banks in Lebanon toward the use of the Internet and mainly e-banking and online payment systems (Mehanna & Yazbeck, 2012). Electronic payments, selling product via social media channels, credit mobile payment methods, internet cards, and improving relationships with the open-source community, are considered some of the new baby born in the banking industry that definitely affect the ultimate secrecy on customers banks’ accounts. On the other hand, adopting cloud computing is impossible in the presence of
the banking secrecy which hinders its applications due to the low level of prevailing confidentiality and security measures over the internet and the threat of possible data leaks (Choudhary et al., 2014). According to a report issued by the Prudential Control Authority and Resolution -ACPR- in France compliance with banking secrecy is considered a particularly difficult issue when it comes to cloud computing (ACPR, 2013). Moreover, the financial sector in Lebanon is not allowed, as stated in the Lebanese banking circulars, from using bitcoin in its financial transactions. Can this taboo prevail for a longer time? Is it possible to stay out of this invasion? Will the financial industry eventually select out the Lebanese financial sector from the international financial spectrum for not being able to adapt and adjust its strategies and core competencies accordingly?

2.4.7 In Negatively Affecting the Relation with Correspondent Banks

Banking services is one of those financial activities that are organized at the global level and do not stop at the borders of a country (Emmenegger, 2014). This fact makes countries affected to a large extent by each other laws and regulations. In this regards, many banks have been covered by the local rules of bank secrecy in the host countries and were blocked from direct supervisory from the home country regulator. Nowadays, supervision reached on site visits and all banks are encouraged to open their doors to host country regulators for inspection. Countries that offer banking secrecy’s privilege to its customers have to deal with this challenge.

More and more transnational transactions across and beyond national borders are taking place on a daily basis. This fact demands for more accountability and transparency (Verhezen & Morse, 2010).

Currently, US regulations strive for market transparency and information sharing thereby making the local banks subject to the U.S. legal system even if U.S. regulations are at odds with the local countries’ regulations (Cochrane, 2013). Furthermore, countries’ regulators encounter problems when transactions are carried out through foreign financial institutions protected by bank secrecy (Grassie, 1987).

For instance, Lebanon highly depends on its network of foreign correspondent banks to conduct its financial transactions worldwide. The association of banks in Lebanon in its
2013 publications stated that banks in Lebanon conduct financial transactions with approximately 306 foreign correspondent banks, including U.S. and European banks, located in 111 cities around the world (ABL, 2013). The main reason is due to being a highly dollarized economy; Bank deposits grew by around 6% to reach a new high of USD 178 billion at end-2014, with a dollarization ratio of 65.7% (BDL, 2015). This fact gives no choice to local banks but to obey US rules and conditions in order to gain market access and international presence. In this regard, Lebanese banks are eager to maintain good and clear relations with correspondent banks. Therefore, they will not undertake any activity that might jeopardize their relations with correspondent banks (Shahin, 2013).

In the figure 4 below, the researcher summarizes the main advantages and disadvantages of applying secrecy codes which were explored by previous researchers:

![Figure 4 - Pros and Cons of Banking Secrecy](Image)

**Pros**
- Support Democratic Practice
- Enhance Competition Standards
- Promotes Customer Confidentially and Data Protection

**Cons**
- Seen as Source of Concealment, Fraud, and Illegal Actions
- Leads to Economic Inefficiency
- Supports Money Laundering and Terrorism
- Promotes International Tax Evasion
- Delays Innovation
- Negatively Affect the Relation with Correspondent Banks

**Figure 4- Pros and Cons of Banking Secrecy**

As a result and to face the various disadvantages that are seen produced out of applying secret practices in conducting financial transactions and in compliance with the best practices issued by international regulators, countries have no choice
but to apply a sound corporate governance which is impossible in the presence of secrecy law. Many international and national regimes are implementing it to safeguard the banking system since the collapse of one bank may lead to loose of confidence in the whole banking system. Consequently, the role of corporate governance, defined and discussed below, starts to take place in order to spread the need for higher standards of disclosure and transparency.

2.5 Corporate Governance Framework

Corporate governance in the banking industry has become a hot topic nowadays since banks are considered one of the most powerful corporations worldwide with a great influence on countries’ economies and societies.

Many definitions could be found in the literature of corporate governance but at the end all definitions meet in a common point of considering it as a system used to govern a corporation so that the interests of corporate owners are protected by providing a structure that dictates the rights and duties of the different groups inside an organization. Corporate governance is the necessary tool that justifies the proper use of power in the management of economic and social resources to reach a good end of sustainable growth and human development and it is viewed as a set of interactions among different parties within the organization and other stakeholders who share interest in this same object—the corporation—while taking into consideration the business objectives and the means of reaching them (Awotundun, Kehinde & Somoye, 2011).

Therefore, efficient governance practices have many positive promising results in the financial system and economic growth of countries. It has been proven that adopting well-organized governance standards contribute in shrinking the level of corruption in organizations as well as suppressing misconduct behaviors and therefore result in improving the way an organization is run which will ultimately contribute positively to shareholders main interest regarding more profitable results.

There is a global pressure to embed common global governance practices which are accepted on a global basis and which focus on information disclosure. According to Verhezen & Morse (2010), the need for a worldwide convergence in corporate
governance arises from the existence of forces leading to an increase in shareholders’ activism and to a better harmony in the international financial market.

In the next sections, the researcher highlights the importance of adopting a sound corporate governance at different levels.

2.5.1 At the Organizational Level

The significant elements in the long lasting economic growth of corporations are related, with no doubt, to the enhanced practices of corporate governance especially that it has been proven that there is a positive relationship between governance and performance (Cioffi 2000; Beiner et al. 2006). This positive result is also applicable in the banking sector as proven by Macey and O’Hara (2003).

For many researches, financial sectors self - interest behavior is considered the main cause behind the most recent global financial disturbance. This fact has created many deep wrinkles in the destiny of the banking sector. From one perspective, (Shleifer & Vishny, 1992) state that corporate governance standards play a major role in shrinking conflicts of interest between firms’ stakeholders and therefore have a major effect in diminishing agency cost among them. Corporate governance emerges as a framework that reduces agency conflicts and provides guidelines and principles to support different interests, especially the interests of managers with the interests of shareholders. Moreover, the shareholders were negatively affected since their capitals were misused and distorted due to the greediness and the subordination of personal interest over the organization best interest. In this perspective, the lack of transparency, responsibility and ethics could be considered important elements behind this unfortunate 2008’s financial disaster and corporate misfortunes.

Consequently, transparency is considered an essential part of good corporate governance along with integrity, accountability and responsibility which are the necessary tools required to build a strong body of efficient corporate governance standards. Moreover, having two ways communication, fostered by transparent standards and practices, between the organization and its community is necessary to ensure long time survival and sustainable growth (Verhezen & Morse, 2010).
2.5.2 At the Investors’ Level

Effective corporate governance framework is essential to achieve and maintain public trust and confidence in the banking system and it plays a major role in improving economic efficiency and growth as well as enhances investor confidence (El-Chaarani, 2014).

To improve investment in the banking sector, adopting well-built governance mechanisms is essential in this global environment since investors favor sectors that have high level of efficiency and governance standards. La Porta, Lopez, and Shleifer (2000) claim that corporate governance is viewed by investors as an important tool that guarantees the protection of their interests against the interests of the managers and shareholders of a firm. In addition, Claessens (2006) found that applying corporate governance standards help companies in attracting potential external financing from external parties and in decreasing the cost of capital. Moreover, well-managed corporate governance practices, including increased disclosure and individual integrity, has a positive effect in the decision making process as well as in reinforcing the possibility of re-building trust and confidence in financial institutions, including the banking sector and their management (Verhezen & Morse, 2010).

In Lebanon, transparency in the banking sector is still far cry off, keeping away a number of potential foreign investors who favor transparency, due to the banking secrecy law. Making the necessary amendments in Lebanon to fully adapt to transparent requirements is neither straight-forward nor trouble-free especially because “modifying governance practices often require amending laws and agreement between the political and corporate elite on the governance model to be adopted." (Verhezen & Morse, 2010)

2.5.3 At the Regulators’ Level

By applying corporate governance regime, regulatory bodies oppress agency conflict, protect the stakeholder interest and attribute positively to the overall performance of the organizations by ensuring that firms are run in a responsible and accountable approach (Dalwai, Basiruddin, & Rasid, 2015).

And because good corporate governance leads to better performance in the banking sector, responsible authorities have no choice but to improve governance rules by
implementing international regulatory standards and the best practices set by international committees and regulators to influence investors and catch their attention toward an adequate banking sector (El-Chaarani, 2014).

Accordingly, corporate governance standards become essential to succeed at the micro and macro levels. Global competition and recent corporate disasters have brought to the forefront pressure for improved corporate governance and more particularly transparent leadership” (Verhezen & Morse, 2010). There come up the need of setting stringent control measures and governance framework to protect the sector from crisis that could arise due to inefficient governance standards since these practices will most probably diminish the possibility of crisis and corruption in organizations.

### 2.5.4 At the Customers’ Level

Achieving public trust and maintaining long term profitable relationship with the customers could never take place without adopting a solid framework of control in a transparent environment. At the end, the customer is interested in getting the product at the least cost and the shareholder is interested in bringing customers back, increase their market shares and get maximum return in exchange of the services provided.

Furthermore, the need to safeguard depositors’ funds is a primary concern in the banking sector since any ineffective action could lead to a major deterioration in the system as a whole (Awotundun, Kehinde & Somoye, 2011). This fact raises the need for a close well built system that guarantee smooth and correct execution of financial transactions.

At the end, having a fully transparent culture is not easy but rather it requires a change in the whole culture and change is required in the way people used to conduct their business since secrecy is no more the name of the game but rather information sharing and transparency. Here comes the role of board of directors in creating a ready to change organizations and in setting the tone for change and in adapting their strategies according to the new required standards.

In the different previous chapters and sections in part two of this thesis, the researcher has presented an in depth literature review in the related field to present a global assessment on the subject at hand from different angles. In the next chapter, a through theoretical
review that best answers this research problem highlighted by the level of readiness of Lebanese banks to adapt to a major change, will be explored and justified to prove compatibility and proper fit to the research question under investigation.

2.6 Theoretical Framework Investigation

Several theories supply insights and thoughts in their studies of change management and different relations were studied from different perspectives.

One of the most recognized models of change, which has been used as the basis for many change models, belongs to Kurt Lewin (1951) and it is well known by calm water Metaphor since it envisions organizations as crossing a calm sea…. which in reality is not case. Lewin’s three-stage metaphorical model is a prevailing concept to perceive change situations; Lewin believes that change is an occasional event and he describes the change process as a break in the organization’s equilibrium state and the change process consists of three steps: Unfreezing the status quo of the existing situation when people in the organization perceived the need for change, Changing to a new state once the need for change is accepted by the people who start to show willingness to change by adopting new behaviors and values and finally this unstable dynamic situation will eventually get replaced by a stabilized regime through the refreezing step in order to make the change permanent (Robbins & Coulter, 2010).

Once the unfreezing is done, organizations enter the state of readiness to change and accordingly the change itself can be implemented. The new situation needs to be refrozen so that it can be sustained over time. However, this type of calm waters environment is not what most managers’ face today since the possibility to face disruption is not occasional in today’s dynamic environment. The lack of environmental stability and predictability requires managers and organizations to continually adapt to survive. For Madsen et al (2005), Lewin’s widely known change model of 1951 stops short of discussing the dynamic and detailed steps, elements, or influential readiness factors of this component which were later clarified by other researchers.

Because the only certain fact in the prevailing dynamic environment is the continuity of uncertainty; ongoing change adopted by the White-Water Rapids Metaphor (Robbins & Decenzo 2005) is considered a much more accurate change perspective since it views
change as a constant fact and organizations current core competencies will not last for a long time. Hence, having the ability as managers who act as change catalyst in stimulating and implementing change and in reacting to unexpected events and be alert to environmental threats and opportunities is mandatory.

For the sake of this research, a decision has to be taken regarding the theoretical framework, summarized in figure 5 and 6 below, which is believed to best answer the research problem under investigation and accordingly it should be mobilized to serve this purpose. Because organizations do not operate in a vacuum and because necessary continuous scanning of the external factors that bound organizational rationality is essential to ensure sustainability and persistence, it becomes a must to “unfreeze” the status quo is a continuous basis and implement developments and changes on a continuous basis to mirror environmental forces. Many environmental pressures prevail in the financial market and mainly related to international and cross borders laws and regulations. Lebanese banks are highly concerned and to save the backbone of the Lebanese economy highlighted by its banking sector, this research is dedicated to study the level of readiness of the Lebanese banks to adapt to the wave of international transparency and lift banking secrecy code accordingly. Is the Lebanese Banking sector ready to change facing different environmental calls?

2.6.1 Institutional Theory

Institutional theory runs richly in exploring how and to what level external forces lead to change over time given that organizations do not operate in a state of isolation rather organizations are viewed as an integrated system that has different aspects and respond differently to diverse situations (Scott, 2003). This research focus on exploring the Lebanese banks’ level of readiness to adapt to an external environmental force calling institutions to adapt to transparent principles and abolish secrecy law in conducting financial transactions.
Institutional Theory

Organizations are not independent in the environment but are controlled by many external forces and social processes. There is high importance of compliance to these outside pressures to ensure organizations’ survival.


Many researches contributed to the development of this theory although the origin of institutionalism goes back to the 19th century coming up from famous scholars such as Marx (1840) and Weber (1946). The first important scholars of the new institutionalism are credited to Meyer & Rowan (1977) who concentrate in their work on the compulsory influence that institutional forces have on organizations to obtain legitimacy and guarantee their survival. DiMaggio & Powell (1983) gained knowledge from Meyer & Rowan (1977) and elaborate their work by supplying further important contributions to the institutional theory. On one hand, DiMaggio & Powell (1983) meet with Meyer & Rowan (1977) on the belief that organizations try to gain legitimacy and seek survival by complying to the institutional pressures which will eventually lead to similarity among organizations; on the other hand, DiMaggio & Powell (1983) claim that organizations tend to build an environment which hinders their capabilities for changes. DiMaggio & Powell (1983) claims that “competitive isomorphism” reveals as a result of the prevailing pressures due to market competition…This isomorphism is a must to gain legitimacy and hence it should be closely observed by the organizational actors. In this perspective, they state three main drivers behind the institutional isomorphism: coercive isomorphism, mimetic isomorphism and normative isomorphism discussed below and highlighted in figure 6 below.

A common belief in this regard is that organizations depend on different social processes and institutional context to operate and to ensure survival. According to the institutional theory, the choice of organizations in the environment is controlled by many external forces (Oliver, 1991) and these outside pressures have significant effect on the
organizations and impact the organizations toward specific behaviors (Pfeffer & Salanick, 2003). Moreover, scholars highlighted the importance of organizational compliance to the external forces to gain legitimacy, social support, acceptance and loyalty although this behavior conducted by these institutions will not necessary increase the level of organization’s effectiveness (DiMaggio & Powell, 1983 and Oliver, 1991).

Meyer and Rowan (1977) believes that actors in institutions have no choice but to enter into actions with the surrounding social processes since institutions are viewed as social structures limited by the environmental pressures which guide organizational behaviors in specific manner and direction to gain legitimacy and ensure survival.

Figure 6 below highlights the three institutionalization isomorphic pressures that are considered the three main environmental forces that affect organizations (Scott, 2003).

**The Coercive Pressure:** It is considered the *regulative force* that takes the form of laws, policies and regulations and it is usually imposed by the state to balance the relation among different players in the environment. To face this pressure, organizations have no choice but to comply with the requirements to avoid punishment (Hoffman, 1999) and to be accepted by the society that expect organizations to act within the legislations’ requirement. In other words, organizations’ behavior is enforced as a result of the costs linked with breaching the regulations (North, 1990). This pressure leads to more homogeneity among organizations which is considered as a constraint exercised by other organizations to which they depend.

**The Normative Pressure:** It is considered the *social force* that takes the form of standard operating procedures as well as social expectations and obligations (Hoffman, 1999). Universities and schools as well as professional and trade associations are the main sources of this pressure. Values, norms and beliefs are examples of this pressure prevailing in an environment where organizations operate and make a pressure on them to behave in a specific way expected by the society.

**The Mimetic Pressure:** It is considered the *cultural force* that takes the form of symbols, words, signs, and gestures that frame our understanding of the nature of reality and build a system of common beliefs that give meaning to actions (Scott, 2003). This
pressure occurs in an attempt to reduce uncertainty coming from the environment and anxiety (Davidsson, Hunter and Klofsten, 2006) and to acquire legitimacy in the society since organizations imitate other institutions that are judged to be winning entities in order to develop their legitimacy (DiMaggio & Powell, 1983).

![Institutional Forces Diagram](Image)

Figure 6- The Three Institutionalization Isomorphic Pressures

2.6.1.1 Organizational Responses to Institutional Pressures
Although the importance of the external environment has long been emphasized in the management literature, it is important to note that internal changes or external ones do not in themselves bring about revolution. They simply create the need for change. It is the organizations’ call to change rapidly enough to prevail and stay competitive especially that the external environment now changes much more rapidly than organizations do. A close match and compliance must be arranged between organizational actions and the external environment. Hence, organizations have no choice but to change and adapt once their antennas catch signal of change derived from the environment. Here reveal a simple equation, once the environment changes, organizations have to change (Chattopadhyay, Glick, & Huber, 2001). Current prevailing strategies may become obsolete or at best not effective when the opportunities and threats that were the basis of those “old” strategies revolutionized (Audia, Locke, & Smith, 2000). Hence, crises cannot be seen from one eye as a source of danger and threat, rather a close scrutiny and strategic management
could reveal lots of unseen opportunities and top management level should be cautious about the need to implement organizational change by finding the proper match with the external environment in order to succeed (Wan & Yiu, 2009).

The institutional pressure is by itself a strategic decision that is influenced by the interest of the decision makers in the organization (DiMaggio, 1988), and this strategic decision differ from full compliance to resistance to change. Organizational strategic response depends on the extent of the institutional pressure exercised on the organizations (Oliver, 1991). Organizations attempt to respond to the environmental pressures by choosing among strategic alternatives. According to Oliver (1991), five types of strategic responses are possible to face the different kinds of outside pressures:

- **Acquiescence:** Under conditions of uncertainty, organizations try to imitate other successful actors in the environment. This response concerns the awareness and unawareness of conformation activities towards institutional pressures. This type of strategic response is based on a deliberate intention to comply with the emitted environmental pressure due to the interest perceived out of it.

- **Compromise:** In an attempt to respond to external pressure and expectations, organizations try to balance and bargain with external components as tactics for adaptation strategy. This type of strategic response is characterized by partial confirmation with the prevailing institutional pressures aiming to preserve the organizational.

- **Avoidance:** Escaping is another possible strategy to be followed where organizations may prepare rational plans but without will for implementation. This strategic response is followed to achieve social prospects of what an organization should achieve without actually achieving it.

- **Defiance:** Resistance to change is also a possible strategy by challenging, or attacking the environmental components that are exerting pressure on the organization. This type of strategic response takes place when organizations
believe that resistance to adapt to institutional pressures does not intensively harm the organization.

- **Manipulation:** organizations may follow controlling tactics in an attempt to influence the external components that are exercising pressure on the organization. This type of strategic response prevails when organizations share weak culture and hence adjustment of institutional pressures to meet organizations’ goals and best interest is possible.

For instance, Lebanon, being the concerned country in this study, enjoys a service driven economy by heavily depending on its banking sector where “banking secrecy” is still applicable since 1956 in its primitive form and protected by a strict law that allow lifting secrecy in limited circumstances by a specific authority only. The Lebanese authorities and legislators have managed till now to keep secrecy law in banking as it is since 61 years ago in front of all international alarms and calls for in depth transparency. The strategic solution taken in Lebanon to compromise international calls was through issuing extra regulatory circulars to manage international queries without touching banking secrecy code. Lebanon is under close scrutiny by the international world to make further steps toward a new era of openness and information sharing. Under international environmental pressures, highlighted mainly by the coercive force of cross borders legislations, is Lebanon ready to lift banking secrecy?

Trading known situation, comfort and certainty with unknown, discomfort and vagueness is a complicated process since organizations’ change is a transition stage which usually involves a shift from familiarity to unfamiliarity. This is the fact that organizational members face once change is to be introduced where some members resist change while others accept change voluntarily and move with it. Are concerned parties, BOD members and Compliance managers, reading from the same book and rest on the same page regarding adapting to international calls to drop banking secrecy? Do they share the same point of view regarding lifting banking secrecy from the Lebanese banking sector? Is
there any possible conflict that may arise and jeopardize the stability prevailing in this sector?

Because different players hold different interests in the organization, each player will react from his own perspective; hence the possibility of conflict arises between different concerned organizational players which will most probable affect organizational performance. Compliance managers, who are appointed to meet international requirements and standards, have a hard mission to be accomplished in convincing BOD members of the worldwide war against secrecy privilege and the importance of transparency in the international financial market. Efficient organizations are those who are able to develop gains by reducing agency costs and hence ensuring a state of readiness to implement a major change in conducting banking in Lebanon.

As a result, adapting to environmental pressures that call for changing bank’s strategies and implementing new approaches within the organization will most probable create conflicts inside the organization since people working in banks have different interests, different information access and different risk appetites. The researcher, in the below section, highlights the conflict that could arise inside the organization due to environmental pressures.

There is a wide literature covering agency relationship which is defined as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf hence involves delegating some decision making authority to the agent. Because it is generally impossible for the principal to ensure that the agent will make optimal decisions from the principal’s viewpoint and hence to limit possible deviation from his interest, the principal uses compensation incentives which by itself will increase monitoring cost on the agent in order to limit the irregular activities of the agent (Jensen & Meckling, 1976). Agency theory, highlighted in figure 7 below, is concerned with resolving the above dilemma that can occur where on one hand an agency
problem arises when the goals of the principal and those of the agent do not match and when, on the other hand, it costs the principal to verify what the agent is in fact doing (Eisenhardt, 1989).

The relationship between stockholders and managers of a corporation closely fit the definition of a pure agency relationship where the domain of agency theory is based on the relationship that mirror the basic agency structure of a principal and an agent who are engaged in cooperative behavior with different risk appetite where there is always a possibility of mismatch between the agent’s decisions and those decisions which would maximize the welfare of the stockholders from their own point of view.

Agency theory has as revolutionary standpoint and it is considered an empirically valid perspective (Eisenhardt, 1989) since it provides unique insight into outcome uncertainty, incentives and risks. Literature review describes the risk sharing problem as one that takes place when cooperating parties have different goals and different attitudes toward risk which will most probably lead to the occurrence of agency problems. More specifically, the problem of risk sharing arises when the principal and the agent choose different actions because of the mismatch in their risk preferences hence further confusion could be the result and conflict could be the outcome.

Principal-agent relation is elaborated on the literature and it is mainly described in terms of two cases in the simple model aiming to draw the optimal contract between the principal and the agent. The first case is based on the assumption that the principal is actually aware of what is the agent doing and has complete information of the agent’s actions. In this case, the risk is transferred to the agent who is assumed to be more risk averse than the principal and an outcome-based contract would be most probable drawn down. The second case is when the principal is not aware of the agent’s actions. This fact will lead to an agency problem because the principal and the agent have different goals and the principal cannot find out whether the agent has behaved properly or not.

Jensen and Meckling (1976) argue conflict arises due to different interests among shareholders and agency costs start to take place. Furthermore, board of directors plays a mixed role because regulators expect them to ensure a safe and sound banking system,
while shareholders look forward to reduce conflict of interest with managers and support the goal of value maximization.

<table>
<thead>
<tr>
<th>Theory</th>
<th>Explanation</th>
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<tr>
<td>Agency Theory</td>
<td>Two dimensions: economic theory of agency, institutional theory of agency. Conflict of interest among stakeholders since people working in banks have different interests</td>
<td>Berle &amp; Means (1932), Jensen &amp; Meckling (1976); and Eisenhardt (1989)</td>
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Figure 7 - Agency Theory Framework

Going back to research problem in assessing banks’ readiness to adapt to the wave of full transparency and information sharing by eliminating banking secrecy, stockholders will always aim to increase their profit shares and to save their organizations while board members are there to set a competing strategy that is consistent with stockholders’ interests because implementing the right strategy is crucial to maximize returns (Robbins & Coulter, 2010). As a result, board members are seen playing the role of monitoring devices for shareholders interests because they have a major role in selectively selecting and implementing the appropriate strategy effectively (Ahenkora & Peasah, 2011). On the other dimension, compliance managers have different preference highlighted by the necessity to conform with the international and local rules and standards even if profit maximizing rule is negatively affected to avoid the risk of being eliminated by the international financial sector…. Hence the possibility of agency problems between top and middle managers in setting their strategies which is considered the heart of the agency theory due to goal conflict among the various players. At the end, agency theory is most relevant in such situations in which there is significant goal conflict between principals and agents and great outcome uncertainty to trigger the risk implications (Eisenhardt, 1989).

For instance, organizations are assumed to have uncertain futures since the future is always not perfectly known and is only partly controlled by organizations members. The future may bring prosperity or bankruptcy, or something between to the organization. In
fact the external environment has a great impact on organizations’ outcomes. Environmental effects such as government regulation, emergence of new competitors, and technical innovation can affect outcomes. The implication, illustrated in figure 8 below, is that outcome uncertainties coupled with different risk perspectives will most probable create agency problems between the principal and the agent (Eisenhardt, 1989).

Figure 8- Environmental Pressures Effect

At the end, agency problems and poor governance are well known reasons behind banking crises and failures. Dropping banking secrecy is considered a large change in the Lebanese banking sector and it is requiring significant change in mission, strategy, and culture of the Lebanese banks, hence this major transformational change, which is related to organization change that is discontinuous, must start from the top of the organization, particularly the chief executive to guarantee success (Burke, 2013). During financial crisis, reality suggests that organizations that were blessed by good corporate governance practices were much able to resist financial hazards and to face risks. Research findings suggest that one of the main reasons behind the recent financial crisis is due to information unconsciousness and lack of accountability and data sharing among board members along with the eagerness to generate short-term profits (Verhezen & Morse, 2010).
After discussing the research problem from the institutional and agency facades, the researcher presents, in the next section, the importance of changing from different lenses.

2.7 Different Dimensions of Change in Organizations
Burke (2013) has described the different stages of the change process as similar stages that individuals pass through when faced with a fatal illness. Shock and refutation is the first stage then the individual moves to anger and attempt to delay the inevitable followed usually by depression and finally acceptance. Organization’s change is generally too complex and not straight forward and this complexity is what makes the study and practice of organization change so challenging, so meaningful, so exciting, and so worthwhile. According to (Gersick, 1991), having a sense of urgency and crafting a vision for the future to provide clear direction are considered two main focal points to launch successful organizational change. Literature reveals that the initiation of organization change begins with a cognitive process highlighted by crafting a vision of the future. One of the best statements about vision has been articulated by James O’Toole (1999):

“A robust vision mobilizes appropriate behavior. It uses memorable, simple concepts that make clear what needs to be different about tomorrow. It describes the distinctive competencies needed to deliver on the desire end state often, a vision will make choices clear by making the case for change as either an opportunity or a burning platform; for example, “If we don’t change in this way, the company won’t survive.”

Setting a clear vision for the future is only the first step but it is not sufficient for change. This step must be followed by certain behavioral progress actions in the direction of the vision (Burke, 2013). A focus on the behavioral movements toward fulfilling the vision requirement is mandatory since the urge for change in minds of people is boosted up after witnessing behavioral actions in the direction desired for the new mental set.

According to O’Toole (1999), there are various common features in studying a change. First of all, it should be kept in mind that change becomes an ongoing process where the external environment is more dynamic than ever before and remains in a constant state of change and the organization must be adaptive and built to change.
Transition management can be described as a way of understanding the process of organization change which is a process of conducting activities such as planning a road map for the change effort. The future which state where the leadership wants the organization to be, the present state which is too simply where the organization currently is and the transition state which is the set of conditions and activities that the organization must go through to move from the present to the future.

In today’s complex environment, organizations are continuously faced with the need to implement changes in their strategies and structures (Armenakis et al., 1993). This change has to be managed correctly to boost up company’s ability to create a sustainable competitive advantage. Company’s should have the ability to easily and quickly adapt to change and take advantages of possible opportunities emerging in the changing business world (Hanson, 2010). Building competitive advantage remains the main ultimate strategic goal for organizations since it is considered the main objective that business organizations strive to attain by enhancing firm performance relative to their competitors.

At the strategic level and in response to change stimulus taking place in the environment and possibly threatening the current prevailing structure and the overall business, the organization has to adapt to survive by altering its design and its way of doing business in a number of different ways (Carley, 1997). In this regard, an adaptable strategy along with a road map of possible means to achieve a “sustainable competitive advantage” status is necessary (Raduan et al., 2009). Thinking outside the box and does not limit organizational scan ability to the interior environment but rather shed the light beyond the boundaries become necessary in this turbulent environment. In today’s turbulent environment, advantages will flow to those companies that can create effective evolving adaptive strategies that benefit out of learning from the signals emitted by the antenna of various change transmitters (Reeves & Deimler, 2011).

As a result, in order to compete and sustain, successfully organizations should be able to preserve in the long run by taking into consideration in their vision possible contributing factors that may jeopardize their plans in the coming future. Management level needs to clearly identify a vision for the change process and set a strong voice in the organizational culture to guarantee low level of resistance at the implementation stage.
(Hanson, 2010). In this regard, at the strategic level, senior management must be certain about the outcome of the change process and clearly determine the ultimate goals of the change process by analyzing the external environments where it operates and anticipating the future and eventually highlighting the ultimate new competitive strategy that the strategic thinkers are trying to reach by taking the appropriate strategic actions to alter the organization in response to environmental signals (Carley, 1997).

In financial institutions and mainly in banks, new compliance regulations are taking place in a very rapid pace at the international level. These financial institutions, including banks, have no choice but to obey to these requirements regardless of the high cost of implementation and the excessive administrative burden that may take place if they want to stay part of the international financial game in the global environment. Knowing the effects of the new rules ahead of time is opportunistic since the probability to succeed in implementing change is high when we are being prepared ahead of time to change (Kingston & Caballero, 2008) since change process is not easy to be implemented nor adopted since it is extremely difficult to predict the factors that will take place once changes’ elements are put into practice. The message of change is neither easily grasped nor implemented rather it is a challenging process that brings within unknown and unexpected facts (Corley & Gioia, 2004); thus and to make implementation smoother the reasons behind change must be clear and the logic behind changing must be openly expressed (Gustafson & Widerlund, 2010).

From another dimension, (Nelson & Winter, 1982) highlighted their belief in routine as the rule of the game since people learn by doing and hence routine is the “source of continuity” for an organization. This belief may be correct and applicable in specific parts in the organizations but definitely not in others. For example, going back to the Lebanese banking sector, routine could be part of many business units responsible to conduct audit and accounting functions but not in conducting basic banking transactions where technology has turned up-side down the industry. Moreover, conducting banking under the veil of secrecy is part of the routine embedded in the Lebanese culture that has to be unlocked. Implementing reforms in the Lebanese financial sector is a difficult process as the system is basically oriented towards stability, hence anticipating Lebanese banks’
state of readiness toward a major environmental change highlighted by the possibility of eliminating banking secrecy worth being studied. Are these institutions ready to change? Persuading shareholders to abandon banking secrecy is something challenging especially that secrecy is embedded on the Lebanese banks’ identity and it is articulated within the society’s value system with reference both to the local society and the international market. A change toward a more open oriented practice jeopardizes deep-rooted interests and accordingly many stakeholders will most probable resist such a change.

**Evolutionary Vs. Revolutionary Change:**

To better understand organization change, it is a must to separate between the types of change that may take place and to note that organizational change differ based on the targeted goal whether it is to improve operations or whether the goal is to turn the organization in an entirely new direction (Burke, 2013). Change can be either continuous or discontinuous where it can be either planned or unplanned. According to Burke (2013), two types of organizational change known as evolutionary and revolutionary reveal. Organizations’ main mission is to always survive and surpass problems that may encounter them continuously, thus in this view organizational change is considered evolutionary where each variation is an expected or connected fact by itself. Fundamental change take place through a series of continuous actions highlighted by new modified ways for achieving future deeds and which will eventually lead to the required new state. In this regard, most organizational change consists of improvements, alterations and continuous modifications to fix a problem or change a part of the organization.

Other organizational change is described as being revolutionary which mainly differ from the evolutionary type by being sudden and unexpected. Revolutionary change is seen “as a shock to the system where nothing will ever be the same again” (Burke, 2013). In few words, business will not be always the same. In this type of change and to support the new mission and the new strategy, organization’s culture will be fundamentally altered and new behaviors which will eventually lead to new attitudes and beliefs and values will take place to meet the modified culture. Because changing culture is not a smooth practice at all especially if it was classified as a strong culture; it may take a long time which could be years if the organization is large and complex to introduce a revolutionary change.
Concerning the subject at hand, lifting banking secrecy will deeply change conducting banking in Lebanon and highly affect the identity of the Lebanese banking sector which will affect its culture and eventually lead to new values and attitudes in the banking sector…Hence, finding new ways to conduct banking transactions and get ready for this new phase is necessary to reach the targeted new state.

The below section, the researcher will discuss why it is important for the bankers to get ready to change and to adapt with the external environment for the best of their institution.

### 2.7.1 The External Environment and the Organizational Adaptation

According to Duncan (1972), organizations operate within an external environment characterized by two main features: level of complexity and level of uncertainty. On the first hand, the environment could be seen as static dynamic and on the other hand as simple-complex. These two features are not constant, thus choosing the appropriate strategy to operate heavily depend on the situation and the level of uncertainty prevailing in the external environment (Duncan, 1972).

The external environment is defined as forces or variables outside the organization that influence or will shortly influence organizational performance. These forces include variables such as customer behavior and satisfaction, marketplace conditions, political circumstances, government regulations, world financial and economic conditions, and changing technology. With these possible major shifts in the external environment, the organization must change its basic strategy and most of its aspects even its mission statement. If the success of the overall change effort is to be realized, thus changing the
vision, mission and strategy of the organization become necessary which by itself could lead to modification in the organization’s culture (Burke, 2013). The world seemed to be moving more toward turbulence where organizations are seen more and more dependent on their external environment, and accordingly organization change occurs primarily as a reaction to the change occurring in the environment. Thus, the importance of reading the environment as accurately as possible so that timely and appropriate organizational responses could be made to ensure survival is essential.

Different types of questions regarding the external environment must be taken into consideration to understand the level of readiness of an organization to adapt to a specific type of change. Some typical questions to be asked could be: how ready is the organization for what will be required? Will it culture be affected and how? How relevant is the organization’s mission today? What are the customers telling us? What could be possible effect of changing government regulations? of social trends? How quickly and how deeply should the process occur? Should the change be evolutionary and continuous or revolutionary and discontinuous or should the change be both?

The environment in which modern organizations operate nowadays is imprinted by the constant occurrence of environmental disturbances which are sometimes a source of danger and at other times could be source of opportunity; consequently, can organizations prevail without continuous adaptation to the external environment? Can organizations survive in this business world well characterized by being intense at the level of competition among market players and highly triggered by customers ever changing demands and in depth technological development?

In the global banking industry, the environment is becoming very complex and experiencing a fast rate of change and it is becoming more and more a technologically intensive industry with a highly innovative future. Waiting for the storm to pass and then react could be suicidal since as the gap widens between the environmental requirements and organizational capability to change on time, organizations reaction and response will eventually lose its effectiveness. At the end, a built-to-last organization is the one that is capable to change, and change quickly at all its dimensions (Burke, 2013) facing environmental shocks.
Tybout & Bark (1988) define an environmental shock as a sudden change in macroeconomic conditions. Hence, it is the result of an unpredicted and disturbing change in a firm’s external environment (Meyer, Brooks, & Goes, 1990) which by itself could be smooth or severe, and raises the probability of a radical organizational response especially if it was brutal (Miner, Amburgey, & Stearns, 1990; (Romanelli & Tushman, 1994). Organizational shock is not limited to a specific sector, rather it may affect specific organizations (Brege & Brandes, 1993) , industrial segments (Sheppard & Chowdhury, 2005), or entire economies (Singh and Yip, 2000). For Volberda (1996), an environmental shock is considered a stimulus for adaptation; hence having the ability to adapt to unexpected change is necessary especially that adaptation is considered a major factor in assessing organizational performance and survival which is positively related to its ability to adapt to shocks. "In order to adapt, a company must have its antennae tuned to signals of change from the external environment, decode them, and quickly act to refine or reinvent its business model and even reshape the information landscape of its industry" (Reeves & Deimler, 2011). Studies argue that level of accepting change and reacting accordingly is critical especially when change happens extensively and rapidly (Weitzel & Jonsson, 1989).

An environmental shock could radically affect a firm’s external competitive position in the market, question its strategy and put under close scrutiny its level of efficiency (Schendel, Patton, and Riggs, 1976). It could shrink the probability of growth, hinders its ability to access new growth opportunities, limits is access to resources, disturbs performance, and increases the risk of failure (Chakrabarti, 2014), increase the cost structure of the organizations’ operations, or decrease the demand for its products or services.

Having the ability to adjust in this turbulent unpredictable environment is not an option anymore especially that nowadays, different industries intervene and companies from different sectors compete. Different interconnected stakeholders become part of the game and being skillful to manage the relations among all those parties and meet to their requirements become necessary.
As a result, an adequate corresponding managerial behavior becomes necessary to reach organizational goals regarding better performance and profitability. Hence come the role of top managers who are concerned to make strategic choice (Child, 1972); and to choose among different environmental clues what to consider and therefore respond and adapt accordingly.

In Lebanon, after the 2008 worldwide financial crisis, the Lebanese banking sector has been put under light by the international community as a secret haven jurisdiction due to the prevailing banking secrecy which is considered a main pillar of the sector and its source of competitive advantage. As a result of this serious criticism of banking under secrecy shadow, Lebanese regulators had no choice but to introduce many regulatory frameworks and circulars to ease international fears regarding Lebanese banking sector’s main core competency, illustrated by banking secrecy. These amendments are seen jeopardizing the effectiveness of banking secrecy and questioning its destiny. Following the world wide trend for higher financial transparency and information sharing standards, are Lebanese banks ready to fully adapt to this major environmental change?

"Organizations that thrive are quick to read and act on signals of change. They have worked out how to experiment rapidly, frequently, and economically— not only with products and services but also with business models, processes, and strategies” (Reeves & Deimler, 2011). Hence, in order for an organization to stay competitive, it is important to be able to respond quickly to the changes that occur in the concerned business industry (Agboola, n.d.). Strategic speed is considered a rule of thumb to be able to develop a successful strategy that fits the existing turbulent business environment. In this regard and while taking into consideration the nonstop technological development, it is fair to state that the inability to adapt to change circumstances over time is a main reason behind company’s failure. Offering the market the same product without taking into consideration the change in needs, in wants and in demands and without adapting the business model can at best be suicidal for the company’s future (Hanson, 2010). Banks had no choice but to be highly active and flexible to reorganize quickly enough to keep up with changing technologies. Hence, spotting the right time to change and adapt is a top priority and adapting to change shall be applied in a dynamic context and it requires organic flexible structure.
Literature on organizational adaptation suggests that organizations change over time. Hence, organization’s ability to adapt to sudden and unexpected changes in response to environmental cues become inevitable in light of the reoccurring shocks in the external economic environment which presents possible threats and opportunities that were unavailable prior to the shock. New growth opportunities may bloom and successful organizations are the ones who are able take credit of these opportunities by expanding or re-identifying their core competencies and consequently got able to improve their competitive position and performance (Wan and Yiu, 2009). What could be possible opportunities to chase once secrecy is eliminated from the Lebanese banking sector? What benefits, if any, could arise which might be currently not possible to include into banks’ strategies due to secrecy laws and regulations? As a result, organizations shall be always ready to react and adapt by taking the necessary attempt to improve their internal efficiency and strengthen their external competitive position (Chakrabarti, 2014).

Being enlightened by the importance of adaptation to change, the section below will define readiness to change and bring to light the importance of readiness from the institutional standpoint.

### 2.7.2 Readiness of Organization to Change

#### 2.7.2.1 Definition of Readiness to Change

Exploring the level of readiness of the Lebanese banking sector regarding a major change in the sector entails first defining the concept of organizational readiness to change. Literature defines “readiness to change” at different dimensions and level which all agree on the necessity of ensuring continuous respond to change factors in successful techniques that maintain organizational performance and sustainability.

Readiness to change is a lucrative subject that has been highly and deeply investigated in the organizational change literature where more than 90% of the theoretical research on the change literature has been carried out on either change readiness or change resistance (Bouckenooghe, 2010) and mainly from the individual dimension.

For instance, on one hand, a wide range of readiness to change has been conducted at the individual level by other researchers. Eby et al. (2000) defines readiness for change from an individual unique perception as “a specific facet of his or her work environment, the extent to which the organization is perceived to be ready for change.” Moreover, Holt et
al. (2007) states that individual readiness for change is “the extent to which an individual or individuals are cognitively and emotionally inclined to accept, embrace, and adopt a particular plan to purposefully alter the status quo.”

On the other hand, readiness for change has been analyzed, at a reduced amount, at the organizational level in the literature. For example, Weiner (2009) work refers organizational readiness for change to “organizational members’ change commitment and self efficacy to implement organizational change.”

Exploring the subject at hand, Lebanese banks’ readiness to lift banking secrecy, entails organizational readiness as a whole. According to Weiner (2009), organizational readiness for change is described from a psychological angel and it is seen related to the members working within the organizations subject to change where their level of commitment to implement the intended change and their self belief in the ability to conduct it directly affect the whole organizational level of readiness. In his regards, employees’ level of commitment is closely related to the value they perceive in the change process itself and to the level of confident in their capability of achieving it that would boost up their motivation level toward the change. As a result, effective implementation could be seen in organizations characterized by high level of readiness although successful implementation of the change process is not guaranteed by the level of organizational readiness although it is a necessary condition but neither enough nor adequate for attaining promising end results and anticipated benefits (Weiner, 2009).

The level of employees’ commitment to the change is a major element that directly affects the result of the change process as a whole and it has been explored by many researchers.

Herscovitch and Meyer (2002) studied organizational members’ commitment in implementing an organizational change at three levels. First, employees’ commitment is the highest when they value the change itself; perceive benefits out of it and accordingly “want to” change. Second, employees’ have little choice and they “need to” change and third it is when they feel coercively obliged and “ought to” change and according act.

Because implementing change is a complex collective process that requires cooperative actions from many independent people who usually assess the change element from different perspectives; hence the possibility of mismatching regarding the task demanded
and the anticipated goals where the possibility of problems arises and the implementation of the change as whole get negatively affected (Weiner, 2009).

2.7.2.2 Importance of Readiness to Change

“Increasingly, a company's viability is being determined by its ability to make systemic, organization-wide change happen, and happen fast” (Rowden, 2001). Various factors contribute to the effectiveness with which organizational change are implemented and among these factors is the level of its readiness to accept change (Armenakis et al., 1993).

The most visible factor that distinguishes major cultural changes that succeed from those that fail is competent leadership. The immediate party affected by the external environment is the senior executives who are the primary decision makers who determine the mission and strategy for the organization. Executives’ perceptions of their organization’s external environment have been shown to directly and causally affect their strategic decisions. Mission and strategy, leadership, and culture are the transformational factors that most immediately and directly respond to external environment dynamics. Regardless of where the awareness of a need for change originates, it remains the CEO’s responsibility to communicate that need to organizational members….and the communication must be convincing.

For instance, it is considered a tough operation to introduce change for organizations that have experienced success in the past…The first expected answer could be: we have succeeded in the past following the same strategy and pillars that are considered to be changed by the proposed change! Senior managers will most probable hold on to the current business content that lead them to the current success despite the vibes of changes emitted by the external environment. Accordingly, it must be clear for organizational members that success will not stay eternally unless the organization change to meet the new requirements emitted by the environment and accordingly transform themselves and the way of doing business.

Thus, organizations have to be highly flexible in dealing with a continuous change paradigm at a rapid pace since their lives become highly affected by the environmental requirements that dictate introducing major strategic change which may range from a simple line extension, new market penetration, possible diversification, product
improvement or adopting a new technological invention. Nowadays, ongoing change is becoming essential and it is considered a necessity for business success. Many reasons could be related to this fact of ever evolving ongoing change journey. Economic downturns, employee shortages, technological advancements, downsizing, mergers, and general instability are some of those reasons along with rapid growth, new business ventures, exciting opportunities, innovative inventions, and novel leadership and management approaches. To ensure future success and sustainability in the market place, organizations have no alternative but to stay in a continued state of change readiness. Hence, organizations can no longer follow a simple route of setting up solid targets, fixed plans, and built-in programs to turn their visions into reality. Rather, necessary amendment to the already built plan may be deemed necessary at every further step that the organization makes in its journey to reach a new target. At the implementation stage, new requirements emerge which entail unplanned elements to be considered and fast actions to be taken. Hence, having the capacity to adapt with unexpected events and to change quickly in a broad perspective is the new rule (Rowden, 2001).

For instance and concerning the work at hand, understanding Lebanese banks’ readiness to accept change and adapt to it in response to environment change worth studying. Boards of directors have the responsibility of setting the long term strategy and policy of the organization that should guarantee reaching its presumed goals. Do BOD members have the ability to foresight the future and adapt their strategies and visions accordingly? An organizational adaptation is an alternative where the destiny of the organization lays on the hand of its leaders who take the command to introduce the changes they found rational.

Many researchers have studied organizational level of readiness for change from different perspectives. In the section below, the researcher summarizes the main findings in the literature to stress on the importance of this phenomenon from the managerial perspective.
2.7.3 Previous Results in the Field of Organizational Readiness

Most of the available researches have concentrated at the employees’ side and their level of acceptance to change. Madsen et al (2005) argue that a positive relationship exist between organizational level of readiness for change and its level of commitment and social relationships in the workplace. In addition, according to (Reeves & Deimler, 2011), creating decentralized, flexible structure is mandatory to be able to cope with the ever changing environment and ease the possibility of detecting changes in the environment to respond quickly and proactively.

Many different theoretical models of the process through which change reveals have tackled the issue of readiness as a distinctive concept. In this perspective, Van de Ven & Poole (1995) blended change theories across various disciplines, giving researchers and practitioners a theoretical tool to better identify the phenomenon. Readiness for change was defined as a comprehensive attitude that is influenced simultaneously by the content (i.e., what is being changed), the process (i.e., how the change is being implemented), the context (i.e., circumstances under which the change is occurring), and the individuals (i.e., characteristics of those being asked to change) involved.

Moreover, readiness for change was assessed in relation to the social dynamics involved in readiness interventions (Armenakis et al., 1993). In addition, Armenakis et al.’s Five Message Components (2002) also provides another theoretical framework in this perspective. Self-efficacy, organizational leaders and top management support, discrepancy between the current state and an ideal state, appropriateness of the reaction to fill the gap and personal valence regarding the possible benefits out of adopting a specific change are the five different but uniformly important elements highlighted by Armenakis et al.’s model which are related to readiness stand on the communication of the change message.

Holt et al (2007) study’s results propose that the Readiness for change cannot be studied from a unique sole dimension; rather it is a multifaceted process affected by different factors. The first dimension is related to the level of efficacy of the proposed change in the eyes of the employees along with their belief in their capabilities to successfully adopt change. The second dimension is related the level of appropriateness and whether employees view that the proposed change is appropriate for the organization. The third
dimension is related to management support and level of commitment to the proposed change. Last dimension is related to the personal valence and whether the proposed change is beneficial to organizational members.

At the end, emotional and cognitive readiness to accept change is complementary and equally important to accept, follow and adopt a specific plan to modify the prevailing status quo. For Buller (n.d.), organizational readiness can be addressed from different perspectives. The first is related to the degree to which organizational members are willing and able to live with the uncertainty of change. This emotional assessment is mandatory if change is intended to be effectively implemented since the sense of loss associated with the change shall be taken into consideration. The second level of system readiness is related to the organization's ability to change since every organization must also have, along with the emotional awareness, the skills to manage change. Any lack of a broad understanding of strategic change management may render the change effort ineffective. At the end, if organizations are to survive in today's increasingly turbulent business environment and to be able to 'hang in there'; all of their structures and processes need to be better incorporated with their strategies using strategic management approach.

Backer (1995) studied readiness for change from different individual perspective. For backer, Readiness for change is not a fixed element of individuals or systems but rather it is a logical concept assessed in the mind of the individuals concerned and it is closely related to the need that trigger it. According to Backer (1995), people attitudes and intentions regarding the extent to which changes are needed along with their assessment of the organization’s ability to profitably adapt to the changes are essential to facilitate the change process. Backer (1995) reveals that an individual level of readiness for change increase when he can perceive, understand and positively believe that the intended change will potentially satisfy a specific need. In this regards, behavioral science research shows that low motivation to change and even resisting to accept it is highly caused by being not ready to change in the first stage and hence the likelihood to reach successful implementation cannot be promising anymore (Anjani, 2013).
Readiness level is altered by various changing external and internal factors that intervene in the change process and affect its level of successful implementation. Hence, when change takes place under low readiness circumstances, interventions to enhance its implementation should be considered since a change that is not designed and implemented well can be the most destructive force in an organization. In this regards, change agents and the organizations’ catalysts have a vital role to play by planning the implementation process ahead of time especially that change suitability, management support and efficacy of change are considered the main factors affecting the level of readiness to favorably accept change.

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<tr>
<th>Study Perspective</th>
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<tr>
<td>Readiness for change assessment</td>
<td>Individual logical Dimension</td>
<td>Backer (1995)</td>
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<td>Positive Relationship between the Level of readiness and the level of commitment in the workplace.</td>
<td>Susan R. Madsen (2005)</td>
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<td>Multidimensional Process</td>
<td>Holt et al. (2007)</td>
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<td>Decentralized Process</td>
<td>Reeves &amp; Deimler (2011)</td>
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Figure 10- Readiness to Change Dimensions

Because building organizational readiness to change is an ultimate factor to sustain organizational success and performance… Board members, being concerned to set appropriate strategy on behalf of shareholders, are responsible to formulate a strategy that is supposed to be capable of making organizations able to achieve effectively its goals and positively contribute to its performance. The section below highlights Board of Directors’ Role in setting competent strategies in action that is seen to be capable of anticipating changes in the related industry rapidly and with no trouble since strategic management is mainly related to the future long term plan of an organization (Prahalad and Hamel, 1990) while taking into consideration its relation with the surrounding environment and environmental changes (Wheelen & Hunger, 2012) and adaptation to the changing environment.
2.8 Board of Directors’ Role in Changing Strategies

Many researchers have defined strategy from their own perspectives. For Ombui & Kariuki (2014), strategy is the instrument through which a firm attempts to exploit opportunities available in the business environment. For Robbins S.P and Coulter M. (2010, p.13) strategic management involves planning, organizing, leading and controlling and they argue that the business strategy functions as a “roadmap” guiding the organization in the right direction towards its goals and vision. Hence, organizations need to find out to what extent their current strategy is able to deal with changes within the surrounding industry. Van de Ven (2007) defines strategic change as a difference in the form, quality, or the state over time in an organizations alignment with the external environment. It is long term in nature, affects the entire organization and aims at achieving effectiveness (Ombui & Kariuki, 2014).

Many stakeholders are intervening and influencing the decision making process of an organization and decision makers’ roles become more and more complicated in this highly dynamic environment where analyzing and coping with environmental changes become a must (Robbins & Coulter, 2010).

Although all levels in the organization should be involved in all stages of the effort; Change should had top-management support. Leaders have important role in settling balance in the work place and evidence shows that leaders can either hurt an organization badly or destroy it completely. Daily activities flow in a balanced manner and smoothly as people expect things to happen until something unexpected happen and throw life out of balance. At this stage, the role of leader shines to bring life back to normal situation by stating things that must be done to pave the “balanced” road back and consciously knowing the boundaries that hinder managers from reaching this objective (Burke, 2013). Hence, it is mandatory for leaders in an organization to scan the environment to protect it against potential threat prevailing while seeking possible opportunities, working on decreasing the effect on internal weaknesses and boost up its internal strengths. Moreover, it is the senior managers’ role to set the adequate form of policies and strategies, implement and then evaluate them. Here come, the importance of congruence between the organization and its environment while taking strategic decision (Burke, 2013).
Strategies involve the decisions and actions that determine the long-run performance of organizations that must be able to assess their current position in the market as well as having ready plans in places regarding where they want to be in the future and what their customers want. An investigation of the business environment is needed to spot out the external opportunities and threats the business environment can offer (Wheelen & Hunger, 2012). The development of strategies is considered a major duty of the board of directors who are seen involved in the strategic thinking and strategic management processes. According to El-Chaarani, H. (2014), board of directors are considered the top executive unit of a bank and the board plays a major role in designing long term strategies. In this regards, banks’ sustainability is closely related to the quality of strategic decisions made by the board.

For instance, the regular business day of any CEO is full of many challenges where some of them are strategic related to human resources in one hand and to the technology system on the other hand to ensure smooth operations; and others are tactical related to setting contingency plans to ensure continuity of business in all scenarios (Raghavan, 2006). In today’s global environment, many regulatory bodies from different parts of the world are responsible of setting rules and regulations which could have extra territory application. Top managers have the responsibility to apply and comply with those different rules that at many times could be contradictory and this fact will only lead to more confusion and more technical and human resource expertise and dedication.

In this regard, boards of directors are most often getting over confused with the long list of requirements which are sometimes contradictory. Having different governmental and regulatory agencies, whether at the local or international level, responsible to set and monitor the implementation and the assurance of proper compliance pave the road for more complications and confusion (Raghavan, 2007). The level of complaints regarding this extra burden of compliance to regulations is reaching new sky-high level until it reached a new ceiling of believing that banks nowadays are deviating from their main business objective of earning profit and increasing shareholders long term value to the favor of becoming applicable and controller on applying internal controls rather than doing banking.
From another perspective, the new technologies that are evolving in a very rapid pace and emitting signals of change almost on daily basis complicate even further the planning cycle and the strategy formulation process. Being ready for an already programmed change is neither sufficient nor efficient since organizations do not surf on calm sea and planned change cover only the top level of the iceberg and it should follow the flow from top, or external environment, to bottom, or performance; the hidden portion requires being flexible to take on time decision to turn around and keep growing…..

“Organization should exist in a constant state of readiness, preparing itself not for any specific change, but for change in general, attuned to its environment and willing to question its fundamental ways of doing business” (Rowden, 2001). In this current turbulent environment, organizations have no choice but to be always prepared to alter their status quo stage when necessary by assessing their already set plans and amend them, while taking into consideration the new environmental rules, to guarantee successful accomplishment of organizations’ prospect objectives in the future.

Failing to adjust to the changing world is considered one of the biggest mistakes a manager may make today (Robbins S.P, Coulter M. 2010) and successful organizations cannot operate without understanding and dealing with the turbulent environment that surrounds them. Acting as an open system and interacting with the surrounding to scan the environment and to search for possible opportunities and guard from potential threats is a must. The board of directors is seen having a major responsibility and an active role in leading the change process and in setting the strategic goals of the company by ensuring compliance and matching with the external environmental pressures.
2.9 Summary
The researcher has conducted in depth literature review, academic and professional, related to the subject at hand where she came across plenty of related knowledge since other researchers have already produced major findings in the field of organizational change and readiness to environmental shocks from different angles and points of interest.

To sum it up, the worldwide financial market is intensively changing, developing and blooming and countries start to put across their concerns regarding some financial challenges out of the need for more efficiency, effectiveness, and ethical practices.

Many failures in real cases of banks trigger the alarm for necessary changes in a sector that nowadays play a key role in shifting most aspects of modern societies’ lives and activities. Accordingly, many international and national agencies are drafting new requests to protect the banking system from further breakdowns since the collapse of one bank may lead to loose of confidence in the whole banking system.

In this regards, concerned stakeholders, customers, bankers and regulators, are getting prepared for a new chapter in conducting banking transactions highlighted by new trends and crowned by the notion of “TRANSPARENCY.”

In figure 11 below, the research summarized the literature review process conducted in part two of this document for the sake of the research at hand.
In part three below, the researcher will emphasize the methodology followed in this thesis to answer the research questions explored from two theoretical lenses, institutional and agency, before presenting the results in section 3.10.
Part Three: Research Methodology and Results

« Seule compte la demarche.car c'est elle qui dure et non le but qui n'est qu'illusion du voyageur quand il marche de crête en crête comme si le but atteint avait un sens. »

Antoine de Saint-Exupéry (1948)

The objective of this part is to answer the research question by using the appropriate methodology. This part describes the choice of interviews technique for being the most effective choice to tackle the research problem under scrutiny. Moreover, a section is dedicated in this part to elaborate on the use of the semi directive interviews and explain the coding technique approached to explore the readiness level from the institutional and agency perspectives. Another separate Section is dedicated to present the N-Vivo analysis conducted on the interviews and extract verbatim that highlight the results presented on chapter 3.10.

3.0 Introduction: The Researcher, the Project and the Methodology

After having explored the research subject and the theoretical context, the following part presents an overview of the methodology and the reason of choosing this specific methodological alternative to tackle this research.

The objective of this chapter is to choose the right methodology to be followed in this research to properly explain how the data were collected and analyzed. This step is a critical point since it is the tool used to effectively respond to the research question while ensuring the overall validity and reliability of the results.

Because the choice of the appropriate method depends on the research rationale, in this chapter, a description is presented of the rationale followed in the process adopted throughout the work at hand to generate necessary knowledge and identify and analyze generated information to understand the research problem regarding the level of readiness of Lebanese bank for lifting banking secrecy in Lebanon.

The choice of the methodology is the result of diverse interactions between the researcher and the project at hand and these two facts cannot be separated. To best reach its
objective, the researcher chose to follow a simple writing style characterized by being
direct, precise with enough details. Moreover, the selection of a specific method to be
followed is also mostly influenced by methodologies followed by other researchers on
similar studies.
Because the methodology is more than just a method followed to conduct a research, it is
the strategy used, the map and the process selected regarding the implementation of a
particular process which is selectively chosen to be qualitative for the sake of this
research since this method permits a rich data collection that allows the researcher to
acquire an in-depth understanding of the research problem under investigation. At the end
a "qualitative researching is exciting and important. It is a highly rewarding activity
because it engages us with things that matter, in ways that matter" Manson (2002, p.11).
Van de Ven (2007) sets the key purposes for research in management in three categories:
describing; explaining or predicting a social phenomenon. First of all and because a
researcher cannot be removed from his/her motives while conducting a specific work and
because the researcher’s motives affect the kind of object that the research will address,
the researcher is this work was driven and triggered by different motives to undertake and
explore this specific research project in management science.

First, the main motive behind this work is too simply the personal desire to continue to
learn and to shed the light on some new findings as well as the wish for exchanging with
other professionals in the Lebanese banking sector regarding a major change highlighted
by lifting banking secrecy from the Lebanese banking sector. The hope to find some
answers to some questions that emerged from years of experience, and also a personal
passion about continuous learning, gaining knowledge and fulfilling an old dream to
acquire my doctorate trigger the researcher toward exploring this subject.

Second, the researcher is deeply influenced by her background and her career in the
banking sector and this fact is clear by taking into consideration the type of subject that
was addressed by taking into consideration the type of individuals that were accessed for
interviews and were accessible due to the fact of belonging to the same sector with the
researcher. After building a career of ten years in the banking sector, the researcher
becomes oriented towards exploration and aims to learn by exploring a specific
phenomenon in the Lebanese banking sector where her interests rest. The researcher’s career has a strong influence on the type of subject that is chosen to be addressed. In fact, the researcher’s experience has influence her epistemological posture (Van de Ven, 2007) by selecting the interpretative perspective which involves the researcher to interpret the different elements of the research.

Third, having appropriate access to the field encourages the researcher to conduct this research. Having the ability to access concerned parties to generate necessary knowledge ruined potential barriers that may hinder the researcher from collecting data. Being part of Lebanese banking sector and personally contributing in setting and attending related conferences and seminars facilitate researcher’s access to collect primary data and to review secondary data highlighted in the form of printed documents and internal materials.

Forth, the choice of the method to be followed is mainly affected by two factors. One is the different parties interested in the phenomenon in question which are targeted by the research by methods that are recognized by this group as acceptable and convincing are preferential and two is the anticipated use of the research results themselves in the field. In this perspective, the importance of banking secrecy in the Lebanese banking sector and the anticipated results of this research regarding lifting it, in relation to the usage that is hoped from the estimated results, motivate the researcher to explore this specific phenomenon. Indeed, in the same way a researcher cannot be removed from his/her motives, a research project is intimately linked to the usage that is hoped for its results.

In summary, the researcher's personal motive, background, epistemological posture and the ability to access concerned parties in the field to generate necessary knowledge pave the road of the researcher to choose this specific research’s subject and object. Indeed, the research’s subject, object and anticipated use are considered major factors in determining the appropriate sample to be targeted and it is a must for the researcher to take into consideration these elements to properly deal in linking them to produce an appropriate scientific research.
In figure 12 below the researcher attempts to summarize the linkage among different factors described above that motivate and affect her choice in conducting this scientific research while pursuing a specific methodology. Exploring the effect of lifting a core competency from the Lebanese banking sector where the researcher has already spent around ten years raise the desire to conduct this research. Moreover, witnessing the rapid changes that is taking place in the financial sector amplifies the desire even further. Hence, understanding the “What” regarding the effect of lifting banking secrecy and the “How” regarding management readiness for this change take more importance during the three years of the research. In summary, the eagerness to discover something new triggered by different motives highlighted from different perspectives lead the researcher to pursue this research and to tackle this particular research problem using this specific methodology.
Figure 12- Methodology Choice Inferred Process
3.1 Approach: Qualitative, Inductive Approach

After conducting in depth review of related literature and previous similar researches in the field and after selecting the theoretical context that is seen to best serve in phenomenon in question in this research, it is time to set the methodological approach to be followed. The following part presents an overview of the overall methodology approach, design and process followed in this research and which is summarized in the figure 13 below:

![Figure 13- Research Methodology and Process](image-url)
3.1.1 Choice of Qualitative Research

The overall aim of this research is to expand knowledge in the related literature based on work done by other researchers on previous studies regarding the same phenomenon – Readiness and Adaptation to change - but from a different angel: Shareholders and middle managers perspectives and different theoretical lenses: Institutional and Agency. Assessing the Lebanese banks’ state of readiness to adapt to an external shock can be conducted using both qualitative (e.g. interview techniques) and quantitative methods (i.e., questionnaire techniques). This research does not aim at understanding from a statistical standpoint what strategic decision is relative to what specific variable regarding a change in the banking sector, but rather it aims to grasp, from a behavioral standpoint, the interpretation of concerned parties (BOD members and compliance managers) to understand whether the Lebanese banking sector is ready for the end of banking secrecy or not.

Accordingly, in this research, the qualitative approach has been used in the exploration since this method provides incredibly rich change-specific information (Holt et al., 2007) and it is consistent with the researcher exploratory quest. This approach produces thorough description and deep insights of the participants’ opinions and the meaning they form regarding the research question at hand. This research follows the tradition of qualitative methods by referring to direct contacts closely concerned with the studied phenomenon, close listening, and open conversation with top and middle managers in order to better assess their level of readiness regarding a possible change in the banking environment highlighted by the possibility of lifting banking secrecy from the Lebanese banking sector. It is worth mention that the researcher is aware of what is needed to produce a good qualitative research design which is an intuitive process that requires logical reasoning, critical thinking and creative theorizing.

In summary, what characterizes qualitative researches vary among researchers and main features are presented below:

- In-depth understanding of a phenomenon in question.
- Mostly inductive method of inquiry.
- Highlights the importance of understanding human experience.
- Rich data: Depth versus breadth (Small sample but high detail)
- Specific data collection methods.
- Specific data (in-depth, extensive).
- Analysis is descriptive and interpretative.
- Researcher’s standpoint acknowledged and questioned

The above set of characteristics complies with the aim of the research at hand as clarified in the figure 14 below:

<table>
<thead>
<tr>
<th>Characteristics of Qualitative Research</th>
<th>Appropriateness to the research in hand</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-depth understanding of a phenomenon in question.</td>
<td>Precisely the aim of this research – Exploring the level of readiness of Lebanese Banks to lift Banking Secrecy.</td>
</tr>
<tr>
<td>Mostly inductive method of inquiry</td>
<td>Bottom-up data-driven approach by adding to the related literature (Readiness and adaptation to environmental pressure) and theoretical framework (institutional and agency theories)</td>
</tr>
<tr>
<td>Highlights the importance of understanding human experience</td>
<td>Interpreting social meaning of participants' answers to give meaning to a social event.</td>
</tr>
<tr>
<td>Rich data: Depth versus breadth, Small sample but high detail</td>
<td>Targeting in depth interviews in small numbers with closely concerned audience in preference to a lot of superficial interviews that would not add further value to the research. In this regards, 21 in depth interviews were conducted in this research.</td>
</tr>
<tr>
<td>Specific data collection methods.</td>
<td>Applying semi-directive interviews using an interview guide.</td>
</tr>
<tr>
<td>Specific data (in-depth, extensive).</td>
<td>Data collected is in depth and complex</td>
</tr>
<tr>
<td>Analysis is descriptive and interpretative.</td>
<td>Results focus on interpretations by giving meaning to the participants’ answers.</td>
</tr>
<tr>
<td>Researcher’s standpoint acknowledged and questioned</td>
<td>The research attempts to systematically hook to the context of knowledge construction and to the implications of findings at every step of the research process.</td>
</tr>
</tbody>
</table>

Figure 14- Characteristics of Qualitative Approach
Every method is characterized by a set of advantages and disadvantages that a research must be aware of. On one hand, concerning the qualitative research method that mirrors the work at hand, a list of advantages reveal where the researcher covered a specific number of banks and limits the interviews conducted to the BOD members and compliance managers in the banks’ targeted. Moreover, this technique allows the researcher to present concerned managers’ viewpoints on how they interpret the phenomenon under investigation by facilitating the study of a change process that is measured through other issues indicated by other events. Moreover, this method assists in comprehensively analyzing a local case as well as concerned audience’s attitudes toward it and eventually thoroughly answers the research exploratory quest.

On the other hand, the researcher is aware of the possible disadvantages that result due to the use of qualitative method starting by the fact of having a lower credibility than quantitative techniques for being considered as soft science and ending up by the results which are specific to a particular country-Lebanon-and to a particular phenomenon-Lifting banking secrecy; hence it is hard to generalize to other countries and circumstances. Moreover, the results reached out of this qualitative technique may be criticized and perceived as biased due to possible impact of the researcher’s personal judgment.

Although possible limitations persist when using qualitative method, the approach that has been followed offers a significant number of advantages for this particular research question. The exploratory spirit of this research complies best with a qualitative technique to grasp concerned parties viewpoints regarding an important phenomenon that was never explored before as focused in this research. Hence, conducting in-depth, analysis to this social fact can be performed best through a qualitative research by referring to a small sample of concerned parties by conducting expert interviews that provided the most insight rather than targeting a large number of people that may not serve the research question of this work with their answers and feedback.

To sum up the methodological approach, this research was developed mostly through a series of different techniques. At first, an historical scrutiny was carried out in order to fully understand the framework of the research question under scrutiny from different
perspectives. Second and most notably, various interviews were conducted using an interview guide that was developed to answer the research question in the frame of the theoretical background that was chosen. The most insight was acquired through a series of interviews with different concerned parties: BOD members who are closely involved in setting appropriate and adaptable strategies for the banks, compliance managers who are closely concerned with the international transparency quest and regulators due to the important role that they play in issuing appropriate laws and regulations to control the banking sector and keep it up to the international standards.

In addition, having access to secondary data by reviewing internal documents issued by Lebanese banks was very useful to understand the importance of banking secrecy and the load of its presence at different level: the employees, the customers and the organization as a whole.

At the employees’ level, it was clear that secrecy shall be strictly protected by all employees who have to sign the “Banking Secrecy Protection” form upon employment. In addition, banks policies and procedures highlight the importance of banking secrecy preservation and continuous update is requested. In this regard, internal account opening forms were amended to comply with the international laws. In addition, a bunch of contracts and agreements are prepared with banks’ suppliers and service providers in order to ensure preservation of banking secrecy and to avoid any potential legal liability. At the customers’ level, the client has to sign a secrecy waiver’s claim for any operation that requires international actions to remove the effect of secrecy liability from the bank’s shoulder. Moreover, all US clients have to sign a waiver of banking secrecy for the bank to be able to share information with US authority to fight tax evasion imposed by -FATCA-. In addition, the issuance of CRS law requires extra documentation that has to be signed by the clients who have tax residency in foreign countries to share information about their tax status while noting that banking secrecy is automatically waived under CRS. Furthermore, international banks operating in Lebanon request any prospect client to sign a specific form to lift secrecy for all banks’ branches around the world to avoid any potential legal liability in case of information sharing among them.

At the organizational level, all Lebanese banks have signed USA PATRIOT ACT with the United States of America where they have to provide US authorities with all
information they request as per section 311 of the act. This Section allows for identifying customers using correspondent accounts, including obtaining information comparable to information obtained on domestic customers. Moreover, some banks had to sign a specific document “country addendum” with other international financial institution. This document is particularly drafted due to the availability of banking secrecy law in Lebanon in order to be able to share information with other financial institutions in other countries to ensure that the other party is abiding by secrecy.

At the regulators level, SIC is the only authority that is allowed to lift secrecy and no other regulatory body or judicial authority has this ability without passing through SIC for being considered as the only appropriate channel.

The overall methodological approach can be summarized based on the below figure:

Figure 15- Methodological Approach and Data Access
3.1.2 Choice of an Inductive, Interview-Based Approach

Interviews constitute a social situation and are considered an important source of information because talking and listening to other people is required to understand their viewpoints in order to figure out our own. Different related stakeholders will add to the researcher perspective in producing quality knowledge regarding this complex problem since “Obtaining the advice of various stakeholders represents an important step in studying a research problem from different viewpoints” (Van de Ven, 2007). The researcher’s attempt is to build concepts from details obtained from concerned parties in this phenomenon under study.

3.2 Reference to BOD Members and Compliance Managers as Informants

In depth literature review reveals that BOD members play the role of evaluating the overall direction and strategy of the business. They assign and hire the general manager of the bank and they are responsible to oversee and manage non executive business units in the banks including the compliance department. They are responsible in setting long term strategies that guarantee shareholders profits while ensuring business sustainability and prosperity. Lifting banking secrecy is a strategic change in the Lebanese banking which requires a top-down approach for setting an appropriate action plan to succeed. Hence BOD members are therefore the primary target for this research especially that one of the chief element in a successful compliance program in a bank is to adopt a top-down compliance approach that starts with the Board of directors who own the ultimate responsibility for the organization’s compliance management.

Since this study aims to interpret a sensitive phenomenon in the Lebanese banking sector highlighted by the level of readiness to lift banking secrecy which is considered a compliance issue to international standards, a legitimate questions were accordingly asked, shall other parties in the Lebanese banks be contacted? Who are they? Why those managers in particular? Shall this study cover only the point of view of BOD members who are definitely concerned with the research question? Shall the researcher expand the scope of the study to interview other concerned parties?

BOD members cannot be considered the only informants on all strategic issues since they refer to other managers to take the appropriate decisions regarding what is necessary for success. Hence, interviewing another knowledgeable party in this subject in the Lebanese
banking sector was deemed necessary to guarantee validity and reliability of this research... In depth review of the related literature, highlighted in part two of the study, provides evidence that calling for international financial transparency by eliminating banking secrecy is a compliance issue at first. Compliance managers are there to advice BOD members regarding compliance issues; hence the necessity to interview them reveal.

Compliance managers are considered non executive and they report directly to the BOD. Among other responsibilities, they are appointed to scan the international environment for the best practices to be adopted to ensure banks’ survival. Transparency in financial transactions is the name of the game in the international financial sector and because banking secrecy has notably been criticized, it becomes useful to interview compliance managers and understand their points of view toward this phenomenon.

![A standard Organizational Chart](image)

Figure 16- A standard Organizational Chart
3.3 Determination of a Relevant Sample

Selecting the appropriate sample in a qualitative research is not a simple straight forward process and having access to the most knowledgeable informants in the targeted organizations which will build the research sample is a building block to ensure research feasibility.

The research subject by itself is the first factor that must be taken into consideration once selecting the research sample. Moreover, the audience that will most probably be concerned with the research findings and results shall be taken into consideration. Increasing research credibility is highly affected by selecting the appropriate sample.

Various variables were considered for determining the relevant sample for this study having as objective to explore the level of readiness of Lebanese banks for lifting banking secrecy:

1. Industry: Lifting secrecy law will mostly affect first the Lebanese banking sector since banking secrecy is considered it is core competency. Concentrating on banks to conduct this research is a necessity.

2. Company Size:
   a. Large organizations have a more effect on a specific sector than small companies, and usually they attract people who have a large experience in the field to be part of their management group. Large banks in Lebanon have international presence and play an important role in the Lebanese economy. Alpha banks total assets maintain a record of almost USD 216,92 billion as at end of December 2016 (BlomInvest Bank, 2017) with a contribution of 413% in the Lebanese economy GDP as at end of quarter three from the year 2016 (BlomInvest Bank, 2017).

   b. Medium sized banks also play an important role in Lebanon. A resilient improvement was realized by the BETA group in 2016 which are considered the medium sized group. Beta banks total assets maintain a record exceeding USD 19 billion as at December 2016 (Bilanbanques, 2017). Hence, it was important to select banks from beta group to interview concerned parties in these banks.
c. International Presence: it was deemed appropriate to selectively choose banks with international presence while taking into consideration being part of the large or at least medium sized groups. Transparency is an international worldwide call and hence it is very obvious that banks with international presence are more concerned with this phenomenon than banks with only local presence. It is worth mention that Alpha Group witnessed contraction in regard to their global presence where 69 branches of alpha group alone closed abroad in 2016 (BlomInvest Bank, 2017).

Figure 17 below summarizes the conditions of ALPHA and BETA banks in Lebanon while presenting the correspondent number of local and foreign branches:

<table>
<thead>
<tr>
<th>Group</th>
<th>Customers Deposits</th>
<th>Number of Banks</th>
<th>Total Number of Local Branches (as at Q4 2016)</th>
<th>Total Number of Foreign Branches (as at Q4 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha</td>
<td>Exceeds USD 2 Billion</td>
<td>14</td>
<td>834</td>
<td>353</td>
</tr>
<tr>
<td>Beta</td>
<td>Range between USD 500M-USD 2 Billion</td>
<td>11</td>
<td>185</td>
<td>7</td>
</tr>
</tbody>
</table>

Figure 17- Alpha and Beta Bank Groups
3.4 The Interview Protocol

3.4.1 Type of Interviews

In order to mitigate the way data collection and interpretation activities could affect both the researcher and the interviewees, a series of semi-structured, semi-directive, face to face, in-depth interviews with different interviewees is used to gather BOD members and middle managers’ experiences and perspectives in banks in Lebanon especially that targeting the right panel allows the researcher to appropriately document the study, and provide rich insights from the field as the interviewees are welcome to speak freely while ensuring confidentiality of their answers as their names will not be revealed.

Real participants’ names belong solely to the researcher and it will be replaced by vague abbreviations before publishing the research to ensure preserving anonymity. Moreover, the questions that were asked were open-ended in order to allow informants to cover the topic to the extent and to the level of intensity that is considered appropriate (Phillips, 1994) hence the interviewees were left free to structure their responses as they preferred and in their own daily words and responses were either recorded or manually written down as preferred by the interviewees.

On the other hand, given the nature and subject of this research, the use of semi-directive interviews is considered suitable since the aim of this study to explore the points of view of the interviewees regarding a fairly defined research question. This type of interview helps in defining a specific number of themes and in framing the collected data which help in deepening the related knowledge in this specific field.

3.4.2 Interview Guide and Opening Clarification

The whole organizational level of readiness is measured by the level of readiness of its members in relation to the tasks demanded and other situational factors (Weiner, 2009) since it is not only the content of change that matters but also the context. Exploring the level of readiness of Lebanese banks regarding lifting banking secrecy is not directly measurable by itself but rather it is done through operationalization of other phenomenon.
Different types of questions regarding the external environment were taken into consideration to understand the level of readiness of Lebanese banks to adapt to a specific type of change. Two main sets of questions were organized to answer the research problem. The first set was done to explore whether the Lebanese financial sector is aware of the international pressures and ready for the change with a specific strategic alternative to face external pressures, and the second was prepared to look at potential conflict of interest among shareholders and middle managers toward the anticipated change.

Because history helps us to understand the present which will definitely affect the future in its turn, the researcher started each interview by inviting the interviewee to state a specific previous change that took place in their banks to check out how much Lebanese banks were ready to adapt to a previous change that took place in the sector and to explore their adaptation process at that time in order to anticipate their future reaction to new change elements. Moreover, the researcher extended its inquiry by asking the interviewees to state whether their previous decisions worked in specific situations and to evaluate what was significant at the moment of specific change components imposed in the sector.

And because it is important to learn from the past and adjust current actions and practices to succeed in the future, it was deemed favorable for the researcher to ask the interviewees about their vision facing the era of financial transparency worldwide and how do they anticipate the effect of this external force at the level of strategy formulation and governance techniques in their institutions.

In addition, it was necessary for the sake of this research to know the main reason that is behind the change in the Lebanese banking sector. Accordingly, a set of related questions were proposed and the interviewees’ answers were coded respectively based on the institutional theory pressures that is believed to affect the sector in this research. Furthermore and in order to highlight on the importance of environmental pressures, interviewees were invited to discuss the consequences of not obeying to the international standard and prefer secrecy instead and the possible outcomes in case of lack of adaptation.
Going deep in the interviews, the interviewer proposes a set of questions in order to interpret interviewees’ reactions to the anticipated change regarding eliminating banking secrecy and to predict potential conflict resulting from opposite assessments and interpretation of this meticulous subject since opposite judgments could diminish banks’ state of readiness to change. In this regard, it was deemed necessary to interpret the importance of banking secrecy for every group of interviewee and its current level of effectiveness and to test out whether the three concerned groups in this research perceive any benefits out of eliminating it.

Consequently, an interview guide, presented below, has been set to assist in the data collection by suggesting clear questions designed, based upon the literature review and the researcher’s field knowledge, to allow participants to recall specific event. These questions were open-ended to urge the respondents to communicate detailed and quality information on topics related to the research. At the end, interviewees’ answers were split on NVIVO to spot out their interpretation of the subject at hand from different angles to ensure rewarding results.
Interview Guide

<table>
<thead>
<tr>
<th>Name</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Title</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td></td>
</tr>
<tr>
<td>Interview</td>
<td></td>
</tr>
<tr>
<td>Duration</td>
<td></td>
</tr>
</tbody>
</table>

Set 1: Below questions were asked to answer the research first question: Is the Lebanese financial sector aware of the international pressures and ready for the change with a specific strategic alternative to face external pressures.

1. Would you please recall a major change that took place in your bank? Can you please tell me how did you adapt to it?
2. How long did it take to fully implement this major change in your organization?
3. Can you rate the effectiveness of your plan that was taken?
4. Lately on May 2016, the Lebanese central bank has issued two new circulars related to ensuring full compliance between local banks practices and the international banking community and amended another one related to fighting money laundering and terrorism by adding more responsibilities on the shoulders of board members: were you ready for this change? Did you adapt?
5. Facing the era of financial transparency worldwide, how do you think you may be affected? What is your vision for the future?
6. Do you think that recent scandals like Swissleaks and Panama Papers could affect banking under secrecy privilege? (If yes, How?)
7. Do you think that banking secrecy in Lebanon will prevail for long time?
8. Are you considering adapting your strategy to meet transparency demands?
9. In your opinion, what could be possible outcomes in case of lack of adaptation? (In your opinion, what will be the consequences of not obeying to the international standard and prefer secrecy instead?)
Set 2: Below questions were asked to answer the research second question: Is there any potential conflict of interest among shareholders and middle managers toward the anticipated change?

1. What does secrecy means to you? Is it challenging or helpful in meeting your goals?
2. In your opinion, is there any clear logic behind changing and dropping secrecy?
3. Lebanon has already signed many information exchange doctrines and is getting ready for the Common Reporting standards regime-CRS-, how are you getting prepared?
4. Is your institution sharing information with your correspondent banks about your customers? If yes, how do you rate the effectives of secrecy law? Can you avoid sharing information under the claim of secrecy law?
5. Do you think that more disclosure and transparency are required for a successful management in the banking sector? Do you think that information sharing will boost up efficiency level?
6. Do any of your plans for the future get affected by the possibility of eliminating banking secrecy?
7. How do you aim to conduct banking when you core competency weaken? Have you think of any new possible core competencies to build on it in your strategy in the future?
8. Do you see any benefits out of eliminating secrecy? How do you think to benefit out of the new innovation that could not prevail with secrecy? i.e cloud computing, improving relationships with the open-source community, selling product via social media channels, the use of bitcoin.
9. Do you think that transparency will help you to meet customers’ expectations regarding more sophisticated products and services?
Before starting every interview, by referring to the interview guide, the researcher presents a general introduction as detailed below:

- A thank you note for the appreciated time allocated for the researcher to conduct her work.
- An explanation that these interviews are needed for the study that the researcher is conducting as part of her ongoing doctoral research at USJ Lebanon in collaboration with Paris Dauphine University in France.
- A clarification that the work at hand is done solely for academic purpose to explore a potential phenomenon that is controversial in the Lebanese banking sector.
- A promise that information related to their identities (names and places of work) would remain confidential and will not be revealed.
- A promise that the researcher would communicate the results of this study with the interviewees who participate in the research.
- A request for permission to record the interview (if not, then manually scripting was used.)

Once all those points were cleared up, the researchers started referring to the interview guide. It is worth mention that during the interviews and for the sake of letting the interviewees express themselves freely, the researcher reduces her intervention during the interview process while ensuring tentative listening and information grasping. Hand notes were also taken during the interview, in addition to recording, and they were referred to at the end of the interview to ensure proper understanding of certain statements that may not clearly grasped during the interview by the researcher.

### 3.4.3 Research Participants

In order to get insights into managers’ status, the researcher conducted nine interviews—

- with BOD member (chairman or BOD member) responsible in nine big and middle sized banks in Lebanon as well as
- nine interviews with heads of compliance (middle managers) in five big and four middle size banks operating in Lebanon in addition to three representative regulators from the three main units in the central banks of Lebanon
In conducting the research of exploring the Lebanese banks’ state of readiness toward eliminating banking secrecy, different factors were taking into consideration:

- **Size of Banks Approached**: Nine major banks in Lebanon were approached. These banks belong to alpha and beta groups which are consider the largest group in Lebanon in terms of their assets. (Alpha banks: top banks in Lebanon with deposits exceeding USD 2 Billion while the deposits of Beta banks range between USD 500M-USD 2 BILLION.)

Banks approached, by numbers, is presented below in figure 18 to show up the number of banks approached in every group while specifying the informants that were contacted:

<table>
<thead>
<tr>
<th>Banks Classification</th>
<th>A: BOD LEVEL</th>
<th>B: Head of COMPLIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Alpha Banks</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>2: Beta Banks</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

*Note: Three regulators were also interviewed.*

Figure 18- Interviewees Targeted based on Banks’ Classification

- **Population Targeted**: BOD members are concerned in setting banks’ strategies and accordingly they were interviewed to interpret their points of view regarding the research question at hand. Compliance managers who are considered non executives middle managers who directly report to the chairman and the BOD committees were also approached since they are closely concerned with the subject regarding the application of international rules that guarantee transparency and best financial practices. Last but not least, regulators from the central Bank of Lebanon were also contacted to get their insights regarding the possibility of eliminating banking secrecy from the Lebanese banking sector to interpret their level of readiness toward this issue especially that they are concerned in issuing the appropriate regulations to satisfy international requirements; and to monitor Lebanese banks’ practices in
adapting and in applying the necessary standards once requested. Table 19 below present interviewees contacted in every bank approached to highlight on the institutions as unit of analysis. Vague abbreviations were set on the table to ensure confidentiality.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Bank Classification</th>
<th>Interviewees</th>
<th>Source Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank 1</td>
<td>Beta</td>
<td>A1</td>
<td>BOD</td>
</tr>
<tr>
<td></td>
<td>Beta</td>
<td>A2</td>
<td>Compliance</td>
</tr>
<tr>
<td>Bank 2</td>
<td>Alpha</td>
<td>B1</td>
<td>BOD</td>
</tr>
<tr>
<td></td>
<td>Alpha</td>
<td>B2</td>
<td>Compliance</td>
</tr>
<tr>
<td>Bank 3</td>
<td>Alpha</td>
<td>C1</td>
<td>BOD</td>
</tr>
<tr>
<td></td>
<td>Alpha</td>
<td>C2</td>
<td>Compliance</td>
</tr>
<tr>
<td>Bank 4</td>
<td>Alpha</td>
<td>D1</td>
<td>BOD</td>
</tr>
<tr>
<td></td>
<td>Alpha</td>
<td>D2</td>
<td>Compliance</td>
</tr>
<tr>
<td>Bank 5</td>
<td>Alpha</td>
<td>E1</td>
<td>BOD</td>
</tr>
<tr>
<td></td>
<td>Alpha</td>
<td>E2</td>
<td>Compliance</td>
</tr>
<tr>
<td>Bank 6</td>
<td>Alpha</td>
<td>F1</td>
<td>BOD</td>
</tr>
<tr>
<td></td>
<td>Alpha</td>
<td>F2</td>
<td>Compliance</td>
</tr>
<tr>
<td>Bank 7</td>
<td>Beta</td>
<td>G1</td>
<td>BOD</td>
</tr>
<tr>
<td></td>
<td>Beta</td>
<td>G2</td>
<td>Compliance</td>
</tr>
<tr>
<td>Bank 8</td>
<td>Beta</td>
<td>H1</td>
<td>BOD</td>
</tr>
<tr>
<td></td>
<td>Beta</td>
<td>H2</td>
<td>Compliance</td>
</tr>
<tr>
<td>Bank 9</td>
<td>Beta</td>
<td>I1</td>
<td>BOD</td>
</tr>
<tr>
<td></td>
<td>Beta</td>
<td>I2</td>
<td>Compliance</td>
</tr>
<tr>
<td>Regulator 1</td>
<td>Central Bank-BCC</td>
<td>R1</td>
<td>Regulator</td>
</tr>
<tr>
<td>Regulator 2</td>
<td>Central Bank-SIC</td>
<td>R2</td>
<td>Regulator</td>
</tr>
<tr>
<td>Regulator 3</td>
<td>Central Bank-CMA</td>
<td>R3</td>
<td>Regulator</td>
</tr>
</tbody>
</table>

Figure 19- Banks as Unit of Analysis
3.5 Data Collection, Triangulation and Double Coding

Andrew H. Van de Ven (2007) stated in his book titled “Engaged scholarship: A Guide for Organizational and Social Research” that a research is considered a cooperative achievement where scholars move outside themselves to gain and chase the interpretations of others about each step of the research process (Van de Ven, p. 266). The researcher throughout the process of this research was interested in the meaning of how concerned parties make sense of the phenomenon under scrutiny from their own standpoint based on their experiences. She went to the interviewees’ place of work to record their answers in their offices for being considered as a natural setting for them and she interacted with the participants directly.

Data collected from the interviewees were analyzed and narrowed down to find out the meaning of the data collected. Responses were grouped according to the similarity of their content, thus forming themes out of coding the data before moving to the interpretation stage of the coded data and then reach findings and conclusions.

Data interpretation is a hard task to be accomplished. To decrease the effect of subjectivity, coding was adjusted through a double coding assessment by two researchers. The researcher attempts to explain the coding used in this research to another DBA student at another program in Lebanon and discuss the results together. Part of the collected data was re-interpreted by the other researcher who individually assigned sentences to specific codes to ensure consistency regarding codes and classification used. The researcher wanted to ensure by this test conducted on the first five interviews that she could properly continue the full coding to the whole sample. The researcher discussed their findings in order to reach an agreement regarding the codes to be used for the purpose of boosting up the reliability of the full coding in the whole sample.

The researcher referred to different people from different background in the sample in order to ensure effective interpretation of the phenomena and better understand the research problem being inspected. Different banks were approached and different stakeholders were interviewed in this regard.

It is worth mentioning that codes that were consistent with the two researchers were accepted and used for the rest of the interviews and that sub-nodes were created under each parent node to ensure accurate coding and interviews’ statements were allocated
accordingly. One statement could be coded under several nodes. Moreover, three “sources classifications” were created: BOD Level-Compliance Managers- Regulators to facilitate analysis from the three different perspectives. For instance, it is most probable that different people will produce different interpretations for the problem which will lead to heterogeneous views of the problem. “Engaging people from different backgrounds and perspectives represents a method of triangulation on a complex problem.” (Van de Ven, 2007.)

The researcher chose to use triangulation, which is a common tool among scientific researchers, to enhance the validity of this research. It is worth mention that different triangulation techniques were used whether in the methods used to collect data or in the analysis to boost up the chance of having credible results.

Triangulation was used to benefit out of its multiple advantages especially that it is considered an innovative way to study and understand clearly the research problem and it is necessary to enhance confidence in research data and its results by revealing unique findings. For instance, this technique is needed to decrease bias and increase reliability and validity of this research and to boost up the chance of having credible results. This technique was used to make a solid base of this research and to fortify its findings and results and to better understand the studied phenomenon and to increase confidence in research data. In this research, diverse sources of information were used as a type of triangulation by referring to Van de Ven book titled “Engaged Scholarship- A Guide for Organizational and Social Research”. On one hand interviews were conducted to analyze the research question of this study from several angles, different concerned parties where interviewed. In every bank targeted, two types of interviewees were selected in order to triangulate the information: a BOD member and a compliance manager. Moreover, regulators were approached by interviewing a representative from the three agencies in the Central Bank of Lebanon (SIC, CMA, BCC). The research’s sample covers those parties since it was assumed that they are closely concerned with the phenomenon in question-Lifting banking secrecy from the Lebanese banking sector. On the other hand, secondary Data were accessed to combine the interviews conducted with document approached. In this regards, legal forms, contracts, account opening documents
were reviewed to assess the importance of banking secrecy and the needed adjustment to meet international requests.

3.6 Defining the N-Vivo Model and the Coding Process
Designing a process of interviews’ analysis is a challenging route that requires transparency, consistency, reliability and validity in identifying which words to be selected for specific used terms to ensure conformity between researcher’s definitions of concepts and the definitions of the categories that are used to measure interviewees’ answers in order to ensure effectiveness in terms of the whole research’s stated aim.

This section is set to discuss the coding logic used in this research that guided the researcher in setting the final themes and then the final results.

Coding is about attaching a label to a part of selected data. To be able to conduct meaningful interviews that would help to collect the necessary information to answer the research problem, a collection of presumed codes and themes were collected from the related literature as well as new codes and themes that prevail and emerge at the interview stage and hence increase the number of collected codes and themes.

Literal, interpretive or reflexive readings are considered the three ways of deriving data from interviews as discussed by Mason, (2002, pp.78-79). First, Literal Reading where the researcher’s main focus reside on the literal dialogue and material, its form and sequence. Second, Interpretive Reading where the researcher focus on drawing inference from the interview’s content itself by reading the interviews for what they mean. Third, Reflexive Reading where the researcher goes beyond the two previous stated types to read something about his role and his contribution to the data creation and analysis process.

For the research at hand, the interpretive reading manner of drilling data was used. It helped the researcher to answer the research question by revealing hidden features and clarifying the actual meaning of data collected.

When the last four interviews’ coding did not introduce any further category and, hence minimal learning is to be produced, the researcher found out that saturation in data collection is reached and it is the appropriate time to move to the next stage regarding data analysis which will be performed in three steps. First of all, the researcher set extensive directives to the pre-assumed categories before coding the data obtained in
interviews. The initial dictionary of categories was drawn from the literature study resulting in plenty of a priori themes. Second, the researcher created categories from the data collected all the way as an ongoing process; and last but not least, coherent links between all these categories were established.

In the next section below, the researcher thoroughly explain the coding process followed in the journey of his research to validate the results presented hereafter.

1. **Coding Analysis Sequence Perspective:**

**Step 1: Transcripting:** 19 hours of recorded answers retrieved from the interviewees, based on the interview guide, were copied on 208 pages of hard copy transcripts using the guide template. Every interview was copied after very short period of time, not exceeding 48 hours, of its conducted date to ensure consistency in transcription.

**Step 2: Coding:** It is the process used to label, classify and sort the data gathered and the basis for building the analysis. Sentences and important words on the interviewees’ answers were highlighted and labeled based on certain key words retrieved from the literature review and the theoretical background of this thesis. Highlights were mainly based on words’ repetition, not expected answers that surprise the researcher, the persistence of the interviewee that what he is saying is important. Moreover, words and terms already seen and highlighted in the literature review were considered key words as well as words and terms already seen and highlighted in previous interviews conducted by the researcher in addition to words and terms used that are found related to the theoretical background.

At first steps, highlighting sentences that are deemed important for the purpose of the research in the first five interviews was a key element in starting the coding process. Plenty of terms and sentences were highlighted at this step as shown in figure 20 below on a hard copy of interview transcript.
Step 3: **Categorization:** Related codes have been grouped into fewer categories by bringing them together where few codes were grouped in one new code and some codes were found not useful for the research at hand and hence ignored. For instance, only codes that are found interesting and important and related to this thesis research problem were grouped in different preliminary categories and labeled accordingly as highlighted in figure 21 below to ensure coherence in data analysis later on.

It is worth mention that some pre defined codes were set based on the conceptual framework conducted by the researcher and the research questions at hand. For instance, studying the level of readiness in the Lebanese banking sector for lifting banking secrecy will definitely entails the codes “level of readiness” and “banking secrecy” which, at a next step, will be possibly set into a different concept and sub codes.

After reviewing the set of labels, the researcher then asked the following question: “could some labels be grouped in one theme?” Accordingly, labels that are deemed related and attempting to answer the same idea were united and integrated in one major code to facilitate evaluation. Then, in order to facilitate analysis and ensure answering the research problem under investigation, highlighted items were labeled by different themes and similar sentences were copied, pasted and grouped under one preliminary code as shown below in figure 21:
Step 4: Connectivity of Codes: This step is important in anticipating new findings out of the research at hand while keeping in mind any idea of what the researcher will end up writing. A decision has to be taken regarding the categories themselves to check the relevant ones and how they are connected to each other.

Step 5: Use of N-Vivo: Having coded the data is not the end of the analysis process. After coding, the data is prepared for further analysis and exploration. To well conceptualize the data gathered from the interviews, Nvivo, software used for qualitative data analysis, was used to organize these gathered concepts in a structured ways that support the research at hand and make it useful and fruitful. The challenge was first to become familiar with this software to be able to design a process of analysis, and to identify correct codes (nodes) to be linked to related terms and words in the interviews while ensuring reliability and consistency. In this regard, the researcher attempted to structure and delicately selects the proper concepts and codes to be fed in Nvivo to ensure
accurate analysis. The figure 22 below shows the initial nodes used for the first few interviews:

![Image of Nvivo software showing initial codes]

Figure 22: Initial Codes Uploaded On Nvivo

It is worth mention that, the researcher’s knowledge in the subject under investigation helped in defining the appropriate codes to be used. Some codes were considered to be general and unable to help in reaching effective analysis in the way they are presented. For example, the code “banking secrecy” is presented in a broad-spectrum and the sentences grouped within highlights different effects that could be analysis from various dimensions that could be related to either a possible agency problem out of eliminating it due to the contradictory answers among the interviews, or to the institutional pressures that could be related to various environmental forces. In addition, some sub codes were found to conflate other ideas from other sub-codes. For instance, “drop banking secrecy” and “future of banking secrecy in Lebanon” under “banking secrecy” code are found not suitable since lifting banking secrecy is by itself a choice that is within the sub code
“future of banking secrecy”. Accordingly new codes and sub codes were created and answers were split in new codes to make them well fit with the data gathered. Moreover, some codes that were considered not useful to answer the reach problem at hand and not related to the rationale that the researcher wants to communicate from this research were eliminated. For example, the code “change in the Lebanese banking sector” and its sub-codes were removed since the objective of the research at hand is neither to highlight on the different reasons of change that will take place in the Lebanese banking sector nor its type. Rather, defining the level of readiness to a change force, illustrated by the environmental pressure highlighted in the institutional theory, is a better option to be studied for the objective of the research at hand.

Along with the pre set list of codes already retrieved from the literature review, a new set of codes came forward from reading and interpreted the data gathered in the interviews and the internal documents, highlighted by banks official documents. Consequently, while keeping in mind the purpose of the study, codes were refined and sub codes were set for every parent node. The researcher has added, developed and revised the coding categories as shown below in figure 23 that highlights the final Nvivo nodes model.
Figure 23- Codes Used On Nvivo
At a later stage, the 21 conducted interviews were uploaded on the Nvivo and named by abbreviation, as shown below in figure 24 below, to ensure anonymity.

**Figure 24- Interviews Uploaded On Nvivo**

In addition, the interviewees were grouped in three sets to proceed with the analysis and to spot potential conflict of interested highlighted in the conceptual framework already prepared. Figure 25 show the BOD, head of compliances and Regulators sets.
<table>
<thead>
<tr>
<th>Name</th>
<th>In Folder</th>
<th>Created By</th>
<th>Created On</th>
<th>Modified By</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOD</td>
<td>Internals</td>
<td>OIH</td>
<td>10-May-17 10:06 AM</td>
<td>OIH</td>
</tr>
<tr>
<td>B1</td>
<td>Internals</td>
<td>OIH</td>
<td>05-May-17 10:16 PM</td>
<td>OIH</td>
</tr>
<tr>
<td>C1</td>
<td>Internals</td>
<td>OIH</td>
<td>05-May-17 10:27 PM</td>
<td>OIH</td>
</tr>
<tr>
<td>A1</td>
<td>Internals</td>
<td>OIH</td>
<td>05-May-17 10:37 PM</td>
<td>OIH</td>
</tr>
<tr>
<td>F1</td>
<td>Internals</td>
<td>OIH</td>
<td>05-May-17 10:47 PM</td>
<td>OIH</td>
</tr>
<tr>
<td>C2</td>
<td>Internals</td>
<td>OIH</td>
<td>30-May-17 10:53 PM</td>
<td>OIH</td>
</tr>
<tr>
<td>A2</td>
<td>Internals</td>
<td>OIH</td>
<td>30-May-17 10:57 PM</td>
<td>OIH</td>
</tr>
<tr>
<td>F2</td>
<td>Internals</td>
<td>OIH</td>
<td>30-May-17 10:58 PM</td>
<td>OIH</td>
</tr>
<tr>
<td>A3</td>
<td>Internals</td>
<td>OIH</td>
<td>30-May-17 10:59 PM</td>
<td>OIH</td>
</tr>
<tr>
<td>C3</td>
<td>Internals</td>
<td>OIH</td>
<td>05-Jul-17 10:04 PM</td>
<td>OIH</td>
</tr>
</tbody>
</table>
Wording and sentences were allocated appropriately in every sub node. Figure 26 below shows a sample of quotes coding per node and its percentage of coverage by different interviewees:

the international world is not obliging us rather they are proposing these norms...if Lebanese banks accept these norms we can have relation, if not we can’t.

Transparency is a must as per the international pressure.

we can’t afford not to adapt...Lebanon will die.

Lebanon was classified as a non-cooperative country and the main reason was is that we have BS.

Adopting CRS is not a choice if we want to stay part of the international financial market, we have no choice but to adopt...

we have to share information even in the presence of BS with the correspondent banks
1. In the presence of the new international laws and regulations and globalization, we have no choice but to have full transparency.

Reference 7 - 0.96% Coverage
We have to share information... it is global issue and it is a new culture

Reference 3 - 0.53% Coverage
Find standards in Lebanon and to adapt to international standards

Reference 4 - 1.51% Coverage
Negatively, Lebanon as a whole will be affected since the Lebanese banking sector serve the whole other sectors in the economy.
We must keep our relation and connections with the world

Reference 5 - 0.84% Coverage
No logic behind dropping secrecy but rather any amendments to meet international standards is required.

Reference 6 - 1.00% Coverage
Lebanese banking sector complies with international standards mainly at the ML/CFT level, insider trading and tax evasion.

Reference 7 - 0.29% Coverage
Readiness is not a choice anymore

Figure 26- Sample of Quotes per Node
3.7 Ethical Issues in Conducting Data Analysis

In carrying out a qualitative research, the researcher has a great responsibility and plays an important role given the fact that the researcher is considered to be the research device that lead to produce text rather than numerical outputs. In this regard, ethical concern is a major pillar in conducting a qualitative research. Hence, formulating a specific ethical guideline to be followed throughout the research is necessary.

The researcher made an effort to establish a state of honesty and open interactions and to reduce the possibility of intrusion into the independence of the interviewees and she attempts to keep up ethical concerns by taking into account privacy, anonymity, confidentiality and clear consent of the interviewees regarding the research carried out and its objective while ensuring no impact on their answers.

Moreover, the physical presence of the researcher requires her to be responsible for her role and its consequences while ensuring no type of oppression on the interviewee to reveal a specific answer. Throughout the data collection stage, the researcher kept in mind her specific role in revealing new findings in the field and she was aware of her precise role in conducting this study in order to avoid detrimental personal issues. It is worth mention that it was very beneficial for the researcher being part of the field and aware of its facts and advancements.

Last but not least, because ambiguity about the different stages of the research and the analysis process may harm the quality of the study and decrease the interest of people in the research, the researcher has clarified the research expectations and process followed to the audience.

3.8 Reliability, Validity and Credibility

Validity and reliability are considered important criteria in the evaluation of a research. Reliability is a matter of how replicated the research is. According to Thietard et al (2014), the research is reliable when it gives the same result every time the research is carried out. In this regard, the same interview guide was used for all interviewees who were asked semi-directive questions about the research focus. Concerning reliability in this work, the research only covers Lebanon and more specifically the banking industry in this country. Confirming that the results of this research are the same if it has been conducted on other countries or in different sectors is neither obvious nor easy since
countries and sectors differ regarding their social context, strategic priorities, customers’ preferences, ethical standards and cultural background.

Thietard et al, (2014) define validity as the ability to research something correctly in an intended way. Validity by itself can be seen from two perspectives, external and internal. External validity is related to the level of generalization that can prevail while internal validity is related to the ability of choosing the appropriate variables to be studied to reach the research’s real objective (Thietard et al, 2014). To boost up validity level, primary and secondary data were used since these two types of data differ in their level of internal and external validity. Using primary data decreases external validity of the result while this last is high when using secondary data. Moreover, primary data are hard to access compared to secondary data which are available and easily accessible. Primary data are highly flexible while secondary data are much less flexible and therefore more reliable since they cannot be easily manipulated. Primary data are considered to have a superior internal validity over secondary data. Therefore, using primary and secondary data hand in hand is necessary in the research to cover the disadvantages of one type by the advantages of the other (Thietard et al, 2014).

Credibility in this research was always a priority for the researcher by referring to trustworthy resources related to appropriate theories.

To sum it up, different steps were followed in order to ensure a solid qualitative inductive research by referring to a rigor methodological approach while taking into consideration key elements pertaining to the research design, the data collection, and the data analysis:

**Research Design:** The social phenomenon explored in this research is of great interest to the concerned audience. This phenomenon was closely tied to a research question that was not interpreted before by other researchers from this specific angel and theoretical focus. The aim was to contribute with new knowledge to the related literature and theoretical framework while offering major scientific benefits to the audience.

**Data Collection:** The researcher ensures appropriate schema in collecting data by targeting knowledgeable concerned people. Data were ethically collected from the informants and were objectively transcript and interpreted.
**Data Analysis:** Collected data was coded with high level of integrity and truthfulness. Double coding was used to ensure proper coding and analysis. Computerized software- NVIVO- was used to ensure proper qualitative data analysis.

**3.9 Limitations of Research Methodology**
Regardless of the effort put by the researcher to be accurate as much as possible, possible errors may take place either from the way the subject of the research is put together, from the sample itself, from the way interviews are conducted, or from the way data is analyzed. This research, like many other qualitative researches, present some limitations detailed below:

- **Research Findings:** The findings of this research cannot be extended to wider populations with the same degree of confidence. This study has been specifically conducted for the banking population in Lebanon.

- **Sample Size:** The small size of the sample interviewed questions the possibility of generalization to the whole population in the research.

- **Interpretations:** Losing meaning of certain statements presented by the interviewees when found not to fit in any preset category related to the research question or the theoretical background since the researcher is trying to build knowledge on a specific aspect related to the research on hand.

Using this detailed methodology, research results will be discussed in section 3.10 presented next.

**3.10 Research Results**
A guide of 18 questions was used to assist in asking the appropriate queries that should lead to effective answers to the research problem. In the following section, the researcher will present the answers collected from the interviewees to answer this thesis’s research questions which will be later discussed and analyzed to serve the purpose of this study.
3.10.1 Interviewees Answers by Interviewees’ Group Classification

3.10.1.1 Results’ Assessment of Lebanese Banks’ Readiness:

To assess the level of readiness of the Lebanese banking sector state to respond to the international environmental pressures toward more transparency in conducting banking operations, the researcher has specified major questions in the interview guide for this purpose. Consequently, interviewees’ answers were presented below:

Inquiring historical actions regarding previous change elements that took place in the Lebanese banking sector remains an excellent method to forecast the future. In this regard, first, the researcher has to anticipate the level of adaptation of Lebanese banks regarding a previous change that took place in their banks. Results highlighted in figures 27 and 28 below show that, on one hand, 6 out of 9 BOD members interviewed claim that previous change elements that were required to be implemented in banking sector were smoothly accepted. In addition, those BOD members highly believe that the level of adaptation to change was rapid. According to those majorities of BOD members interviewed, Lebanon was always ready to change and it was better than Swiss in adaptation and in managing its national and internal duties and the adaptation time span was considered rapid... A BOD member claims that

“We are open and ready for any change that is taking place at the international world”.

On the other hand, 8 out of 9 middle managers operating as heads of compliance in the banks approached claim that previous changes in the Lebanese banking sector, most of the time, surprise the sector mainly when it comes to applying international rules and regulations. According to this group of interviewees, 8 out of the 9 middle managers interviewed believe that compliance with international regulations, like FATCA and CRS, entails timely compliance process related to screening, identifying and reporting information. Hence, the majority of compliance managers’ interviewed admits that it took a lot time and effort to adapt to the proposed change and to build the appropriate infrastructure and for customers to accept most proposed changes. One head of compliance state:
“We were surprised by some changes…. implementing changes was not easy and it required lots of work ….. It took a lot time and effort to adapt.”

From the regulators perspectives, 2 out of the 3 regulators interviewed agree that the Lebanese banking sector was surprised by most proposed changes introduced in the sector, they believe that the adaptation of Lebanese banks to these environmental forces of change took time to be fully implemented although they believe that Lebanese banks were able to adapt at the end and to meet international requirements on due time and that some extension for deadlines were requested in certain aspects. For instance, a regulator claims that

“We were in need for international experts to help us then we asked the local banks about their point of view regarding potential regulations and actions and we took their feedback…”

While another admits that

“Banks were not ready and it took time with them to adapt and to ask their clients to sign waivers and update their documentations.”

Second, interviewees from the three groups were invited to rate in the effectiveness of plans that were taken when a previous change took place in the Lebanese banking sector and the results are highlighted in figure 29 below which indicate an agreement among all
interviewees, BOD members, head of compliance and regulators on the high effectiveness level of plans that were taken by the Lebanese banking sector to adapt to the previously imposed changes. For instance, 8 out of 9 BOD members’ approached believe that

“All plans that were taken were really effective”

Since

“We were able to meet the international requirements”

And

…..At the end we were able to implement the necessary changes”

Additionally, 7 out of 9 compliance departments’ heads believe that

“Plans were effective and we are able to report and to meet international standards.”

In addition, the three regulators interviewed agree on the effectiveness of plans taken. For instance, one regulator claims that

“Banks’ plans were really effective to meet international changes in the financial market” and “banks in Lebanon were able to implement the necessary changes.”

![Assessment of Previous Adaptation Effectiveness Level](image)

Figure 29- Assessment of Previous Adaptation Effectiveness Level

Third, interviewees’ assessment regarding the consequences of not obeying to the international standard uniquely unified. Results highlighted in figure 30 below show that all interviewees, regardless of their classification, totally agree and to a full extent on the importance of adaptation. BOD members state that
“We will be out of the international financial market and Lebanon economy is based on the free flow of money mainly from the Lebanese expatriates.....hence we cannot afford being out of the international financial market”

Others state that

“Lebanon will be black listed by the international community and this will kill our economy. The volume of the banking sector in 4 times the GDP...we are very open economy and we need to have exchange of capital abroad and capital inflow in the country...definitely we have to adapt we have no choice.”

Since

“Being black listed will hinder deposit growth, and hinder investments which will have negative impact on the whole Lebanese banking sector and the Lebanese economy.”

Compliance group believe that Lebanese banks must keep a good relation and connections with the world by agreeing that

“We had no choice but to adapt since Lebanon cannot afford international penalties due to banking secrecy” otherwise “we will be out of banking market”

And this what

“Lebanon cannot afford to happen because Lebanese banking sector is one of the main pillars of the Lebanese economy.”

Regulators on their turn do admit that

“We cannot say no....we will be out of the global system and there will be no banking sector in Lebanon especially that we are a dollarized economy”.....

“Lebanon has no choice but to follow international rules to avoid being black listed”

Otherwise

“Lebanon will economically die because the country is based on money transfers’ transactions”
Forth, a set of questions were proposed to figure out interviewees’ perceptions regarding the core rationale highlighted by specific environmental forces that requires change in the Lebanese banking sector and the interviewees’ answers were coded respectively based on the institutional theory pressures. Results highlighted in figures 31 and 32 below show that all BOD members admit that the main reasons that push Lebanese banks to change is mainly related to coercive pressures related to the issuance of international cross borders laws as well as local regulations that were issued to satisfy international requirements…Tax Evasion, FATCA, CRS, HIPFA, AML/CFT regulations are just recent examples to these coercive forces. BOD members clearly sate that

“Change is due to international pressure that we could not resist... It is forbidden not to adapt to international requirements.... We had no choice but to adapt”

Because

“The whole world put more tights on the free flow of money and correspondent banks are afraid.”

Moreover, one BOD member only claims that besides coercive pressure, Lebanese banks has to adapt to certain normative forces by stating

"We visit on a very continuous basis our correspondent bank to keep them pleased with any requirement and in case they need any further steps to be taken so we can do.”

At the same time, 6 out of the 9 BOD members interviewed are totally convinced that international bodies do not ask for secrecy removal and that

“Lebanon will not be forced by the international community to eliminate secrecy”
Since

“Lebanon is always on the fore front of all the required amendments in the international philosophy or perceptions.”

Moreover, in order to highlight on the power of the international pressure on the Lebanese banking sector, interviewees from the three classified groups were invited to describe their positions toward a specific cross border international requirement that was imposed by the international bodies on local regulators who in their turn had no choice but to issue necessary circulations for local banks to apply, results show that all interviewees highly agree on the mandatory spirit of applying the requirement of the international request. In this regard, BOD members believe that

“We were ready and we adapt easily to these amendments”

And even more

“We wanted these laws to take place to avoid being alienated out of the international market” and that “Lebanon adopted positively since we had no choice but to adapt”.

On the other hand, the majority of compliance managers announced that

“Lebanon was late to introduce the necessary changes to be compliant with the international rules”

And they all agree

“We have no choice but to adapt.”

Regulators announced that

“Banks are eager to adopt transparency along with other international requirements..... Sometimes they may ask for time extension to get ready and to apply certain requirements but we usually we do not grant extensions....”

From the same dimension, all compliance managers do agree that coercive forces are the main reason to change as well as some normative forces imposed by the best international
practices and correspondent banks’ norms and requests. Compliance group are totally convinced that

“The international world put more and more norms, rules and best practices to decrease the effect of BS…. and that the whole world is moving to a direction where all things have to be more transparent and clear.”

Moreover, all compliance group interviewed fully agree that normative forces is as important as coercive pressure and it had to be applied. In this regard, a compliance manager states that

“In the presence of the new international laws and regulations and globalization, we have no choice but to have full transparency….We can’t say no to correspondent bank requests…. transparency is required with them....”

They add that

“International standards should be applicable even if it is not in the form of law….we have commitment with them.”

Furthermore, 6 out of the 9 compliance heads’ interviewed also believes that besides coercive and normative forces, mimetic pressures is a main force to trigger change in the sector. In this regard, a compliance manager claims that

"Banks in Lebanon tend to imitate US banks to gain legitimacy from the international financial platform."

Accordingly, all compliance managers do agree that international world cannot accept secret jurisdictions anymore in conducting financial transactions and consequently they argue that

“We can look at what happen in Swiss which is an example so the whole world is moving to a direction where all things have to be more transparent and clear.”

Furthermore, all three regulators do agree that reasons for change were triggered by coercive elements as well as normative forces. For instance, regulators have no doubt that international laws and regulations that have the potential to access other countries were the main reason behind issuing local laws since Lebanon is a dollarized economy and heavily dependent on financial transfer transactions with the world. One regulator states that
“We are always issuing necessary steps to make the international world at ease and to satisfy their requirements... What is requested from us by the international world... We are doing it.... Lebanon has to follow their rules”

Otherwise

“Lebanon will be black listed by the international community.... the country will die.... we introduce the necessary amendment to satisfy the international financial market to stay part of it.”

In addition, 2 out of the 3 regulators adds that mimetic forces related to copying successful international organizations is another reason that prompt change in the sector by stating that

“Lebanese banks are very concerned and conservative and currently banks are being terrified due to international requests... To acquire legitimacy in the international arena, they try their best to be like successful international banks in conducting their banking transactions by copying international banks’ actions.”

Regarding the intention of the international world toward banking secrecy, two regulators out of the 3 approached states that

“It is not requested by the international world to drop it... Introducing necessary amendments by issuing extra laws is enough to satisfy the international requirements.”

They even added that

“What is requested from us by the international world... We are doing it... they have not ask Lebanon to drop banking secrecy code yet.”

Figure 31- Assessment of Environmental Pressure
3.10.1.2 Results’ Assessment of Potential Conflict Of Interest

Shedding the light on a potential conflict of interest among concerned parties regarding lifting banking secrecy from the Lebanese banking sector requires first presenting interviewees’ answers to the related questions in the interview guide where contradictions, in assessing the situation under exploration, prevail. Consequently, interviewees’ answers in assessing the research phenomenon were presented below:

In order to interpret interviewees’ reactions to the anticipated change regarding eliminating banking secrecy and there assessment regarding the time they deem necessary to adapt their strategies and governance techniques accordingly, Results show that interviewees refer to their past experience in assessing the future impact of a new potential change while setting their Strategies. Figures 33 and 34 below respectively present the expected effect on banks’ strategies and governance techniques.

On one hand, all interviewees, BOD members, concerned middle managers and regulators agree that there will be a great effect on Lebanese banks’ strategies in case banking secrecy is eliminated but from different angles. 7 out of 9 BOD members’ group that were contacted claim that it is not the right time to take this possibility into consideration in formulating their strategies, although it will have a great effect on their strategies, since till today banking secrecy is available and

“Removing banking secrecy will affect our strategies mainly in attracting deposits and new clients... we will adapt when requested to make changes.”

On the other hand, 8 out of 9 compliance managers’ approached believe that an expected great effect on banks’ strategies require preparation and readiness to be able to adapt accordingly and avoid being in chaos. Hence, it is highly recommended from their points
of view to anticipate this change before it takes place regardless of the cost. Compliance managers claim that

“We should be ready in adapting ourselves facing any possible change in this environment”

Especially that

“The international world put more and more norms, rules and best practices to decrease the effect of banking secrecy.”

Regulators believe that although banking secrecy is still applied in Lebanon, many local rules and regulations are issued to boost up information sharing without amending the code of secrecy in Lebanon. 2 out of the 3 regulators interviewed argue that a great effect on banks’ strategies is expected in the absence of banking secrecy. As a result, issuing compliant national rules and regulations is important to satisfy international requirements that did not ask to drop secrecy in Lebanon yet. According to the regulators, banks should have new visions and priorities for the future to build on competing strategies and Lebanese banks

“Have no choice but to cope with all new requirements”

And

“To adapt their strategies to meet transparency demand and international requirements”

<table>
<thead>
<tr>
<th>Expected Effect on Strategies</th>
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</thead>
<tbody>
<tr>
<td>1: Expect Great Effect</td>
</tr>
<tr>
<td>2: Expect Minor Effect</td>
</tr>
<tr>
<td>3: Expect No Effect</td>
</tr>
</tbody>
</table>

Figure 33- Expected Effect on Strategies

On the other hand, BOD members, heads of compliance and regulators’ expect “great effect” of this major change highlighted by the elimination of banking secrecy once applied on the Lebanese banking sector on the banks’ governance techniques but from different lenses. On one hand, 8 out of 9 BOD members believe that eliminating banking
secrecy will negatively affect the bank’s governance techniques by stating that this change will

“Not add value to the way of doing our internal business”

Rather they have their own concerns mainly

“Convincing clients with other core competencies”...

On the other hand, all compliance managers interviewed expect “great effect” on the governance techniques of the banks but from different lens. Heads of compliance interviewed expect positive effect on banks’ governance by stating that

“Without banking secrecy, it would be much easier to tailor more sophisticated products and services and to enter new markets”

And this fact

“Will push correspondent bank to work more and more with us”

And will decrease the budget set for training to meet international request since

“We are investing a lot on compliance and training”

This change, with no doubt, will

“Make easier for us to conduct our cross borders transactions”

As well as

“Decrease the time and effort that is currently applied to explain to clients the new international requirements and to make them sign waivers on their accounts which currently cause some panic for the clients” ....

From the regulators perspective, two of the approached regulators believe that eliminating banking secrecy, with no doubt, will heavily change the governance techniques of the banks. For instance, regulators admit that they are taking necessary actions to assist banks in adapting by stating that

“We always issue necessary laws and circulars when it contradicts banking secrecy.”
The banking sector

“Was in need for international experts to help us then we asked the local banks about their point of view regarding potential regulations and actions and we took their feedback”

![Figure 34- Expected Effect on Governance Techniques](image)

Additionally, interviewees were invited to look forward and provide their expectations regarding the future of banking secrecy in Lebanon, results highlighted in figure 35 below show that 6 out of 9 BOD members, the majority, believe that the code will prevail in Lebanon as it is and it will stay in its preliminary form since this is the core competency in the Lebanese banking sector. BOD members state that:

“We have to protect our main pillar and core competency in the banking sector and we will ensure that BS is fully protected…”

Since in their points of view it is good to keep it

“To protect customers’ privacy and for data protection and in Lebanon it meets international standards to control crimes”...

BOD members rely on the fact that

“Things in Lebanon do not change in a fast way” hence “banking secrecy in Lebanon will not be removed and it should not be removed…. There is a must to protect customers’ privacy.”

In addition, the other 3 BOD members claim that the Lebanese banking secrecy will neither be totally removed nor saved in its current locked state….They claim that banking secrecy in Lebanon will be reshaped since the Central Bank of Lebanon works on
implementing all the required measures to save the Lebanese economy and to align with the international requirements. They announce that

“Introducing necessary amendments by issuing extra laws is enough to satisfy the international requirements.”

8 out of 9 members of the group of compliance managers’ interviewed believe that they do not rely on banking secrecy in their daily work since they assume that the code will sooner or later vanish. Compliance managers announce that

“In practice it is finished... we are reporting to hundred of countries”....
“Eventually secrecy will be more and more limited... it will be removed step by step until it comes a day where we have no more secrecy”

Hence

“Its destiny is to be eliminated no other choice.”

Regulators’ point of view in this regard is not unified… In this regards, only 1 regulator state that the code will vanish while the other 2 out of the three regulators state that banking secrecy give Lebanon a competitive advantage over the whole Arab region and now it is not requested by the international world to drop it. For instance, one interviewed regulator claims that

“Banking secrecy will prevail and it is good to keep it to protect customers’ privacy and for data protection...”

Figure 35- Assessment of the Future of Lebanese Banking Secrecy

Furthermore, Banking secrecy was interpreted by the interviewees, each from his own background and accordingly results highlighted in figure 36 and 37 below show that for 6 out of the 9 BOD members, banking secrecy is a privilege in the Lebanese banking sector and it plays a major positive supportive role in helping Lebanese banking institutions to
reach their goals…. They state that it is a type of customers’ right for privacy and confidentiality. BOD members believe that

“Banking secrecy in Lebanon is one of the main core competencies and pillars of this sector since it provides customers safety toward their information and money in a very strong way …. We are one of the very few countries in the world that still enjoy banking secrecy code…..it helps banks to attract deposits especially from abroad and motivates people to deposit their money in Lebanese banks.”

On the other extreme, head of compliance have a very opposite point of view in this regard. Compliance managers interviewed entirely consider banking secrecy as a burden since it put boundaries that hinders or at least delays them from reaching their goals and create a challenging environment. For compliance managers, the Lebanese secrecy Law is not anymore a privilege to be enjoyed by banks but rather a duty to be observed. Compliance managers believe that

“Secrecy is a challenge and it obliges banks to take extra measures to avoid being penalized...customers have to sign on a waiver on almost every operation that requires international access” because “Lebanon is exposed to many reporting to other countries as well as support from other countries for being a dollarized economy”

And

“There are a lot functions that we are forced not to have in Lebanon which will cut our costs due to secrecy code” hence compliance managers believe that “it is good for the image of Lebanon not to have secrecy.”

Two out of the three regulators that were contacted still believe that banking secrecy is a privilege that distinguish the Lebanese banking sector by granting Lebanon a special place in the banking industry in the Middle East region although in certain aspect it was fragmented but still effective to a great extent in helping Lebanese banks to reach their goals by

“Giving us a competitive advantage over the whole Arab region....

Hence
“Keeping BS is a necessity”

Since

“It protects the depositors.”

Figure 36- Assessment of the Current Interpretation of Banking Secrecy

Figure 37- Assessment of the Effect of Banking Secrecy on Goals

Moreover, the three concerned groups in this research were asked to present their perception toward any potential benefits out of eliminating secrecy. Results highlighted in figure 38 below show that 7 out of the 9 BOD members interviewed perceive “no benefits” to be captured by the Lebanese banking sector and the whole Lebanese economy if banking secrecy is eliminated. BOD members believe that

“Banking secrecy advantages outweigh any possible disadvantage and it distinguishes Lebanon from the surrounding countries... working by introducing necessary laws and regulations to meet international requirements is satisfactory and enough.”

While on the other hand, all (9/9) compliance managers, who are closely concerned to apply international best practices, highly agree on “major benefits” to be captured by the sector by lifting banking secrecy code. Compliance managers believe that

“Banking secrecy code causes pressure on us and this is a franchise risk.... We would be more comfortable in conducting banking services...”
Moreover

“Eliminating banking secrecy could enhance our international image regarding not having this law anymore. This will push correspondent bank to work more and more with us....”

In addition, all regulators do not perceive major benefits out of lifting secrecy since, in their assessments,

“Working by introducing necessary laws and regulations to meet international requirements is satisfactory”

Since

“Other issue shall be solved, like country rating and electronic signature law which takes priority over banking secrecy”....

Figure 38- Assessment of Potential Benefits out of Eliminating Banking Secrecy

Furthermore, it was further cleared out that there is deep difference in interpreting secrecy and its relation to information sharing... Results highlighted in figure 39 below show that 8 BOD members out of the nine interviewed believe that banking secrecy does not hinder information sharing and it is only a type of data protection and confidentiality. They claim that:

“Secrecy does not hinder the application of international requirements” and “We are already transparent even in the presence of banking secrecy”. BOD members even state that “we are leaders to transparent demands.”

While on the other hand, compliance managers have different point of view. All 9 compliance managers believe that
“It would be much easier to fight ML/T crimes and reach much more efficient and effective solution if banks can share information more freely among themselves while taking into consideration the ethics of the profession.”

This group state that

“Transparency and BS are definitely opposite”

And they consider that

“A Loophole for transparency is secrecy”

And they even added that

“More disclosure and transparency are required for a successful management”

Since

“Without BS I can know more info about my client and increase my relation with the client at the level of the products offered.”

From the same dimension, all regulators (3/3) in Lebanon assess transparency from the same angel. They believe that

“We do have transparency in the Lebanese banking sector even in the presence of banking secrecy”

Since

“Secrecy is to protect the depositors as data protection only.”

Figure 39- Assessment of Transparency in the Presence of Banking Secrecy

In addition and in the same spirit of shedding light on interviewees’ assessment of the suggested change highlighted by eliminating banking secrecy in the sector, results highlighted in figure 40 below demonstrates that 7 BOD members out of the 9 that were contacted, negatively assess the possibility of eliminating banking secrecy from the Lebanese banking sector and accordingly; they prefer to preserve it since they believe
that removing banking secrecy will have bad effect on the banking sector. They claim that:

“Banking secrecy attracts people to bring their funds to Lebanon” and “banking secrecy provides many advantages to the Lebanese banking sector.”

BOD members claim that

“Lebanon is a risky country and to attract people living abroad to deposit their money in the Lebanese banking sector we have to offer them something...this is the role of Banking Secrecy.”

On the other edge stands the compliance managers who have an opposite point of view in this regards. All interviewed compliance managers (9 out of 9) prefer to work freely without any boundaries set by the banking secrecy code and they see positive outcome out of his change. They claim that

“Banks’ strategies for the future shall be built on transparency standards and not secrecy anymore..... Lebanon was classified as a non-cooperative country and the main reason was is that we have Banking secrecy.”

According to this group,

“Without banking secrecy applying international rules could be much easier....and it would be much easier to tailor more products and services....and to benefit out more of technological advancements.” They believe that “Not having banking secrecy will be better for new investors to come in..... Will be better for the grading of Lebanon...... will be better for the economy....will be better for the image of Lebanon..... Will ameliorate Lebanon’s position in the international market... Will help Lebanon to enter to new markets.”

All three regulators that were approached negatively assess the proposed change since the country still benefit out of banking secrecy privilege. The majority claims that

“It is good to keep it since it is one of the main core competencies of the sector”
And they are able to issue the necessary amendments to regulations to satisfy the international requirements while at the same time save banking secrecy code.

Figure 40- Assessment of Outcomes of Eliminating Banking Secrecy

Last but not least, interviewees were invited to present their assessment regarding the current level of effectiveness of the Lebanese banking secrecy. Results highlighted in figure 41 below disclose different points of view. 6 out of the 9 BOD members interviewed believe that banking secrecy is still very effective by admitting that

“Banking secrecy law in Lebanon is one of the strictest BS law in the world still…. it is still the same as it was in 1956 and it is not weaken and will stay like this.”

7 out of the nine compliance managers that were approached state that banking secrecy is a myth and

“In practice it is fading and not available”

Since

“The international world does not accept it.”

Compliance managers have no choice but

“To share information even in the presence of banking secrecy with the correspondent banks” and “from compliance perspective it cannot persist.”

Moreover, compliance managers admit that

“Due to international pressure, banking secrecy’s effect diminishes…..transparency is the rule” and “eventually secrecy will be more and more limited” since “for any other operation that requires international actions, the client has to sign a waiver to remove the effect of secrecy.”

Regulators’ assessment split between “moderately effective” and “highly effective.”
Although 2 regulators believe that banking secrecy is still effective by claiming that

“Bank secrecy is available and valuable…. we are making the necessary amendments to satisfy international requests without lifting the code”;

One regulator claims that banking secrecy is not effective anymore as it used to be in the past by stating that

“Banking secrecy become fragmented….and it is not absolute as before although the law itself was not amended.”

Figure 41- Assessment of Current Effectiveness of Lebanese Banking Secrecy

To sum it up, major contradictions prevail, in different dimensions and scopes, in assessing the importance of adapting to an environmental force highlighted by lifting banking secrecy from the Lebanese banking sector between BOD members and middle managers. This mismatch between the agent’s assessments and those of the principals noticeably indicate a potential conflict among the two parties that have different attitudes toward risk which will most probably lead to the occurrence of agency problems, will negatively affect the level of readiness of the sector for this change and question the successful adaptation to the environmental pressure.

To facilitate comparison and future discussion in part four, the researcher sums up the entire interviewees’ answers, by group classification, in figure 42 below:
<table>
<thead>
<tr>
<th>Subject</th>
<th>BOD members</th>
<th>Compliance Managers</th>
<th>Regulators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interpretation of previous change</td>
<td>Three BOD member, out of the nine selected, consider previous changes adopted in the Lebanese banking sector as a shock</td>
<td>Eight compliance managers, out of the nine selected, deem that earlier changes in the sector were distressing</td>
<td>Two regulators claim that the Lebanese banking sector was surprised by most proposed changes introduced in the sector</td>
</tr>
<tr>
<td>Interpretation of the Time required for adaptation</td>
<td>Only three BOD members, out of the nine selected, consider that adaptation usually takes time in the sector.</td>
<td>Eight compliance managers, out of the nine selected, believe that it took extensive time and effort to build the necessary infrastructure to adapt to the environmental forces and to change.</td>
<td>Two of the three selected regulators consider the sector inflexible to adapt to change on time.</td>
</tr>
<tr>
<td>Interpretation of the effectiveness of previous plans set for adaptation</td>
<td>Eight BOD members, out of the nine selected, found that plans taken were highly effective.</td>
<td>Seven compliance managers, out of the nine selected, consider previous plans for adaptation to change as highly effective.</td>
<td>Total agreement among regulators on the high effectiveness level of the plans taken for adaptation</td>
</tr>
<tr>
<td>Interpretation of interviewees’ vision</td>
<td>Full agreement prevails among this group of interviewees regarding the</td>
<td>All compliance managers admits that adaptation is not a choice</td>
<td>All regulators agree that adaptation is not a choice</td>
</tr>
</tbody>
</table>
Regarding the power of international requests

<p>| Interpretation of the main pressure behind the change process | All BOD members believe that the main reasons that push Lebanese banks to change is mainly related to coercive pressures… Only one BOD out of the nine selected also consider normative pressure as a force to change besides the coercive pressure. | All compliance managers do agree that coercive and normative forces are the main pressures that lead the change process. Six out of the nine selected compliance managers also consider mimetic pressure as a force to change. | All selected regulators have no doubt that international laws and regulations that have the potential to access other countries as well as the normative forces related to the best international practices were the main reason behind issuing local laws in order to comply without the necessity to drop secrecy. Two out of the three selected regulators also consider mimetic pressure as a force to change. |</p>
<table>
<thead>
<tr>
<th>Assessment of international requirement</th>
<th>Six BOD members, out of the nine selected, claim that international requests do not aim to drop secrecy as a code.</th>
<th>Full conformity among compliance managers, toward international requests that aim to drop secrecy as a code.</th>
<th>Two out of the three interviewed regulators claim that that there is no call aim to drop secrecy.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interpretation of the anticipated Effect on Banks’ Strategies</td>
<td>Seven BOD members, out of the nine selected, believe that there will be a great effect on Lebanese banks’ strategies in case banking secrecy is eliminated.</td>
<td>Eight compliance managers, out of the nine selected, believe that there will be a great effect on Lebanese banks’ strategies in case banking secrecy is eliminated.</td>
<td>Two out of the three selected regulators interviewed believe that banks strategies will be highly affected by removing banking secrecy.</td>
</tr>
<tr>
<td>Interpretation of the anticipated Effect on Banks’ Governance Techniques</td>
<td>Eight BOD members, out of the nine selected, expect negative “great effect” on the governance techniques</td>
<td>All selected compliance managers expect Positive “great effect” on the governance techniques...</td>
<td>Two out of the three selected regulators admit that lifting banking secrecy with no doubt will heavily change the governance techniques of the banks.</td>
</tr>
<tr>
<td>Interpretation of Interviewees’ vision regarding the future of banking secrecy in Lebanon</td>
<td>Six BOD members, out of the nine selected, believe that the code will prevail in Lebanon as it is and it will stay in its preliminary form while the other three believe that the code will be reshaped</td>
<td>Eight compliance managers, out of the nine selected, do not expect a long life for this code. Rather, banking secrecy is expected to vanish. Only one compliance manager claims that the code would be reshaped rather than totally vanished.</td>
<td>Two out of the three selected regulators claims that the anticipated destiny of banking secrecy is to stay.</td>
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<tr>
<td>Banking Secrecy interpretation</td>
<td>Six BOD members, out of the nine selected, believe that banking secrecy is a privilege and it supports goals’ attainment.</td>
<td>All selected compliance managers consider banking secrecy as a burden that makes their mission of goals’ attainment more challenging.</td>
<td>Two out of the three selected regulators still believe that banking secrecy is a privilege that plays a positive role in supporting the Lebanese banking sector.</td>
</tr>
<tr>
<td>Interpretation of potential outcomes</td>
<td>Seven BOD members, out of the nine selected, do not perceive any potential benefits out of eliminating banking secrecy</td>
<td>A total agreement reveals among compliance managers who were interviewed by perceiving major benefits by practicing banking without the secrecy code.</td>
<td>All regulators do not perceive any additional positive outcomes in the banking sector by eliminating banking secrecy code.</td>
</tr>
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<td>--------------------------------------</td>
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</tr>
<tr>
<td>Interpretation of secrecy regarding information sharing</td>
<td>Eight BOD members, out of the nine selected, believe that secrecy code do not contradict transparency best practices.</td>
<td>All selected compliance managers fully admit that secrecy hinders information sharing</td>
<td>The three selected regulators believe that secrecy does not veil transparent practices.</td>
</tr>
<tr>
<td>Interpretation of Proposed change</td>
<td>Seven BOD members, out of the nine interviewed negatively assess the possibility of eliminating banking secrecy from the Lebanese banking sector</td>
<td>A total agreement took place among compliance managers by admitting to preferably work freely without any boundaries set by the banking secrecy code</td>
<td>The three regulators that were approached negatively assess the proposed change</td>
</tr>
<tr>
<td>Interpretation of the current level of effectiveness of the Lebanese banking secrecy</td>
<td>Six BOD members, out of the nine selected believe that banking secrecy is “highly effective“ while the three others considered “not effective” anymore.</td>
<td>Seven compliance managers out of the nine interviewed clearly admit that banking secrecy is not effective anymore nowadays. One compliance manager considers it as “moderately effective” and another considers it “still very effective.”</td>
<td>Two out of the three regulators contacted, perceive banking secrecy as “very effective” while only one admit that it becomes “moderately effective” nowadays.</td>
</tr>
</tbody>
</table>

Figure 42- Summary of Interviewees’ Answers by Group Classification
3.11 Interviewees’ Answers by Banks

For a company to function successfully, the management team and the board of directors must be reading from the same book since having general alignment between them is necessary for an organization to work effectively and efficiently in reaching its goals.

Regarding the study at hand, BOD members and compliance managers from the same bank interpret and approach this study’s research problem in different ways and from different angles. Hence, the probability of facing conflicts among same organizational members increases.

The process of change must be adopted at all levels. Compliance managers cannot play the traditional role of middle managers highlighted by receiving strategic instruction from the BOD members, to whom they report, without questioning and scrutinizing these instructions in conjunction with the international best practices since their fundamental role is to comply with the international rules and regulations requested by the international organizations to spare their banks from being alienated from the international financial arena.

Major differences reveal in the assessment of BOD members and compliance managers in the banks targeted in this study, at the level of same bank, and results are highlighted below:

**Bank 1:**

Major differences in the assessment of readiness level regarding previous changes that took place in Bank 1 reveals between the BOD member interviewed and the compliance manager. The BOD member claims that

“Lebanon is better than Swiss in adaptation and in managing its national and internal duty since Switzerland was not able to protect Banking secrecy but Lebanon was able to set an appropriate strategy and practice to meet the international requirements and save the secrecy code.”
According to the compliance manager in the same bank (bank 1)

“It took almost two years to adapt to one change in the sector highlighted by the adaptation of FATCA law which was a shock for the whole sector.”

From another perspective, BOD member in bank 1 assume that banking secrecy will prevail by stating that

“We have to protect our main pillar and core competency in the banking sector and we will ensure that it is fully protected”

While, on the opposite side, the compliance manager believes that banking secrecy is fading in Lebanon and it is time to start looking for new core competencies and strategic alternatives in the Lebanese banking sector. For instance, bank 1 compliance manager states that

“BS is a black point...with the emerging of FATCA and CRS and patriot act and the perusal of countries and tax authorities for tax evasion...any country that has banking secrecy is being set under close scrutiny and negatively evaluated.”

Moreover, this BOD member does not see any contradiction between saving banking secrecy which is, according to him, a type of data protection...While the compliance head claims that applying full transparency, as requested by the international bodies, is complicated in the presence of secrecy law.

Furthermore, regarding benefiting out of lifting banking secrecy code, BOD members do not perceive any potential benefit out of the change by claiming that

“No benefits out of eliminating banking secrecy...BS advantages outweigh any possible disadvantage and BS distinguishes Lebanon from the surrounding countries...Lebanon benefits out of BS and it should stay.”

While compliance head claims that dropping secrecy would facilitate daily work and save time in conducting necessary transactions by stating that

“Without BS applying FATCA would much more easy since it took a lot time and efforts from the bank to make the necessary changes and to call the clients to waive BS.”
Bank 2:
BOD member interviewed in bank 2 claims that banking secrecy is a type of data protection and that the code will be restructured only in Lebanon, especially that the country is able to meet international standards to control crimes, as requested, even in the presence of secrecy. BOD member claims that banking secrecy should be saved since

“Its benefits outbalance any possible disadvantage”

Although, the BOD member in bank 2 admits that

“...Banking Secrecy makes bank’s duties more challenging since it is not anymore the major positive feature that attracts clients, rather extra efforts are required now to attract clients. These efforts shall guarantee no bankruptcy of the bank, a guarantee for the client and good management and corporate governance to ensure safety and returns.”

On the other hand, bank 2 compliance manager can perceive major benefits out of dropping secrecy code mainly in relation

“Abolishing banking secrecy will lead to more trust and better international acceptance of the Lebanese banks by the international world”

Although BOD member agrees, with the compliance head, that banking secrecy is challenging in today’s international calls for more openness and transparency but at the same time, BOD member argues that it is not the right time to let it go especially that banks are able to cooperate with international demands for information sharing when requested without dropping banking secrecy. Gradual modification could be taken to stay in line with the global development in the banking industry without brutally dropping a main core competency of the sector. In this regards, he states

“No need to remove secrecy, sequence amendments to meet international standards is the only rule.”

The Bank 2 compliance manager has another point of view by stating that:

“In practice banking secrecy is finished….it will vanish when we start reporting Lebanese accounts to hundred of countries.”
BOD member in bank 2 agrees with the head of compliance regarding the mandatory application of international requests by stating that

“Lebanon as a whole will be affected in case of lack of adaptation since the Lebanese banking sector serves the whole other sectors in the economy.”

Moreover, both meet in their assessments regarding previous changes that took place in the bank by stating that previous change took time to be implemented successfully since the bank was not ready to accept. On the other hand, BOD member in bank 2 believes that banking secrecy does not restrict information sharing since Lebanese banks do share information with their correspondent banks upon request and

“Correspondent banks save their relation with us because Lebanese banks are able to manage risks and apply international standards”

While compliance manager believes that

“The level of transparency will increase once secrecy is abolished.”

**Bank 3:**

BOD member interviewed in bank 3 claims that banking secrecy will not be brutally eliminated from the sector but rather

“It will take time to be totally removed....It will be removed step by step at it is going on right now until it comes a day that could be in the near or long future where we have no more secrecy”.

Moreover, BOD member in bank 3 agrees with the head compliance regarding the mandatory submission to the international calls to chase more benefits that are possible when secrecy is lifted by stating that

“We may benefits from new technologies”

And

“Better meet the expectations of a larger customer base.”

He also admits that banking secrecy is challenging nowadays, as argued by this head of compliance, in the presence of international demands where
“The customer has to sign on a waiver on almost every transaction that requires cross border operation.”

Moreover, BOD member and compliance managers do meet in their assessments regarding previous changes that took place in the bank by admitting that earlier changes introduced in the bank were neither smoothly accepted nor quickly adopted. For instance, regarding a previous change in the bank, the compliance manager claims that

“It took time to fully implementing FATCA in the bank and it took time for the customer to accept.”

In this perspective, compliance manager in bank 3 states that:

"It took a lot time and effort to adapt...We had to meet all many representatives of all correspondent banks and we were under close scrutiny and pure investigations."

Moreover, both parties argue that banking secrecy as a code is challenging although they both claim that many positives outcomes could be reached if secrecy is eliminated since

“Efficiency level will be boosted up”

Bank 4:

BOD member, in bank 4, claims that their bank was able to adapt to earlier changes in the sector easily by stating that

“Lebanon was always ready to adapt to changes especially in the banking sector”

And he adds that the sector benefits from

“A resilient level of control to meet the international requirements while ensuring that BS is saved”.

According to this BOD member, banking secrecy still help bank in reaching their ultimate goal and he adds that

“Keeping BS is a must to save the Lebanese banking sector and its distinctive place in the region....”

While the compliance head in the same bank argues that banking secrecy turns their daily work full of challenges since

“We cannot afford not to share information when requested.”
In another dimension, BOD members claims that

“Banking secrecy does not hinder transparency; it is only to protect the confidentiality of our clients”

While the compliance manager in bank 4 believes that

“Transparency and information sharing are opposite”

Last but not least, BOD member claims major benefits of secrecy code by stating that

“Banking secrecy provides customers safety and it distinguishes Lebanon in the Middle East region since Lebanon benefits out of this law because it creates a kind of trust between the depositors and the banks.”

While bank 4 compliance head believes that a major benefit out of lifting secrecy code is to ameliorate the image of the country in the international world and he adds that

“Transparency will help banks to meet customers’ expectations regarding more sophisticated products and services.”

Bank 5:

The BOD member interviewed in bank 5 argues that the bank was able to adapt to all changes requested and the adaptation time was fast…He stated that

“We are able to set appropriate practices on time to meet the international requirements while keeping banking secrecy.”

According to this BOD member,

“Banking secrecy is very helpful not challenging for the banking sector”

and hence great efforts must be implemented to save banking secrecy in Lebanon since it is the back bone of this sector and the country benefits out of it and there is no perceived advantages out of lifting banking secrecy especially that the sector is able to satisfy the international requests and the customers in the presence of banking secrecy.

When asked regarding his assessment of banking secrecy and transparency demands, Bank 5 BOD member stated that

“Banking secrecy does not hinder transparency. We do share information when necessary and we satisfy transparency demands.”
The compliance manager in the same bank (bank 5) has other opposite points of view at different other levels. He has admitted, during the interview, that it took huge effort from them to adapt to requested change elements, whether introduced by the regulator or imposed by the environment. For instance, compliance manager in bank 5 states that

“*It Took Almost Two Years to adopt to FATCA...FATCA was a shock ...*”

According to this interviewee, the time was needed first to understand the logic behind the requested change to convince the top managers and the employees as well as the customers. Moreover, Bank 5 compliance head perceived great benefits out of lifting secrecy which Lebanon can benefit out of it especially regarding better rating as well as at the level of reputational gain and international presence. He claims that

“In 1988-1989: Lebanon was classified as a non-cooperative country and the main reason was is that we have BS.”

**Bank 6:**

Concerning bank 6, although the BOD member and the compliance manager agree that the bank responds quickly to change and that

“*Adaptation did not take time*”,

BOD member believes that it will prevail by stating that:

“*Things in Lebanon do not change in a fast way.... The code as itself will stay*”

While, the compliance manager claims that Lebanon cannot face the international community pressure and accordingly banking secrecy will vanish. In this regard, he states:

"*I always thought that banking secrecy in Lebanon would prevail for a long time. But now with the CRS I can’t see how it will be protected... It will be removed.*"

Moreover, both parties admitted that banking secrecy as a code is challenging and more benefits could be chased by the sector if secrecy is abolished. In this regard the BOD managers claimed that, once banking secrecy is lifted, the pressure exercised by the international world will decrease because Lebanese bank

“*Will be more at ease regarding sharing information*”
And the compliance manager stated that

“Lebanon will be better rated and customers nowadays care about technology, internet services, level of risk, convertibility and transfer of currencies more than banking secrecy.”

From another angel, the BOD member in bank 5 believe that Lebanon and its banking sector are

“Leaders in transparent demands”

even in the presence of banking secrecy since the sector is able to manage itself and respond to international request while the compliance head in this bank has an opposite point of view…He claimed that

“Sharing information is hard in the presence of banking secrecy... we always put extra efforts to ensure avoidance of legal problems due to lifting secrecy.”

Bank 7:

BOD member interviewed in bank 7 believes that they are able to manage any change once they are requested…Once asked about his perception regarding the future of banking secrecy law in Lebanon, he replied with definite answer that this code is the main core competency in the sector and it should be saved at all cost…He claims that

“International community does not have the logic since we are doing our due diligence and secrecy code should be protected.”

According to BOD member in bank 7, Lebanon is able to satisfy international calls without dropping secrecy so there is no logic currently to remove the sector’s most important competitive advantage especially that no benefits could be chased out of this proposed change…This BOD member believes that banking secrecy, as a code, should prevail to control information spread and competition in the sector. He claims that:

"We are very conscious and transparent even in the presence of banking secrecy"
On the other hand, the compliance head in bank 7 believes that it took a lot time to introduce a change in the bank even when the change element is not major as the one proposed regarding lifting banking secrecy...He claims that

“We were not expecting that FATF to have this power”.

He also admitted that sharing information is hindered by this code since

“More openness could be possible without banking secrecy”

Moreover, Bank 7 compliance head is expecting banking secrecy to be removed as a type of adaptation to the international requests of more transparency in conducting financial transactions by stating that:

“Lebanon has to remove it! Full stop”

Bank 8:
BOD member in bank 8 claims that the bank was able to adapt with the previous changes in the sector, he claimed that

“We had enough time for the regulation to take place then we act accordingly”

Moreover, he added that banking secrecy in Lebanon does not hinder information sharing and this fact should be clarified for the international world...Banking secrecy in Lebanon is only a type of data protection and as a result banking secrecy should prevail in Lebanon since it does not stand stiff against transparency demand. According to the BOD member in bank 8

“We should have banking secrecy in Lebanon and necessary steps to work within the international guidelines are enough ....and this core competency shall not be weakened.”

He also added that

“In Lebanon we have an excellent banking system and an excellent regulated system...and no extra benefits could be earned out of dropping secrecy.”
On the other hand, the compliance manager in bank 8, admitted that earlier adaptation to changes in the sector was slow by stating that

“It took time to implement a previous change related to international request-FATCA- to call all the clients and to prepare the necessary documentations to avoid waiving secrecy without the right to do so.”

He also added that banking secrecy cannot persist in Lebanon for a long time but rather it will be reshaped…For instance, the compliance manager in bank 8 claims that

“It will be removed step by step…since Lebanon has no choice but to obey to international standards.”

He also added that

“Banking secrecy is challenging, it would be much easier to fight ML/T crimes and reach much more efficient and effective solution if banks can share information more freely among themselves while taking into consideration the ethics of the profession”

And he perceived many benefits out of dropping banking secrecy especially that Lebanon is a high risk country and considered as a tax haven by the international world…hence, Removing secrecy code will boost up Lebanon rate and

“The country will be at a much more ease level in its international relations by following international standards.”

**Bank 9:**

Major previous changes are claimed by the BOD member of this bank and he argued that various previous changes in the sector surprised them by affirming that

“Some change was a shock for us but we were able to act although the adaptation took some time.”

Concerning the future of banking secrecy, he believed that banking secrecy will be gradually removed although it is one of the main core competencies in the sector by stating that
“The secrecy code will be re shaped….it will be removed step by step, law after laws will diminish its effect....”

This bank’s BOD member clarified that

“Transparency is available and banking secrecy does not hinder information sharing in Lebanon”

On the opposite side, the compliance manager in this bank has a different point of view, he stated that it took time with the banking sector to accept previous changes and to adapt accordingly….When he were asked about his interpretation of banking secrecy as a code and its destiny, he admitted that it will be removed by claiming that

“Banking secrecy would always be a grey area and it raises questions”

And because

“Full transparency and collaboration should exist in the financial transactions”

And being part of international financial platform as a country, banking secrecy will be sooner and later abolished especially that it is seen by the international bodies as an obstacle against information sharing… Moreover he claimed that

“Banks must consider adapting their strategies accordingly since it will ultimately vanish since secrecy does not add value”

According to Bank 9 compliance manager, abolishing secrecy code will be beneficial by providing the country with

“More openness and information sharing where banks will be able to offer more sophisticated products and services as the case in the international banking and these will boost up customers’ satisfaction in the Lebanese Banking sector.”

To be able to spot potential conflict in the banks’ approached and to be able to assess their level of readiness to change, the researcher has summed up groups interviewees’ answers, in figure 43 below, by bank, to spot major differences and boost up proper discussion in part four:
<table>
<thead>
<tr>
<th>Bank</th>
<th>Bank Classification</th>
<th>Source Classification</th>
<th>Readiness to Previous Change</th>
<th>Adaptation Time</th>
<th>Future of Banking Secrecy</th>
<th>Adaptation to International Requests</th>
<th>Transparency Interpretation VS Banking Secrecy</th>
<th>Banking Secrecy Interpretation</th>
<th>Potential Benefits of lifting Banking Secrecy</th>
</tr>
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<tbody>
<tr>
<td>Bank 1</td>
<td>Beta</td>
<td>BOD</td>
<td>Highly Ready</td>
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</table>

Figure 43- Summary of Interviewees’ Answers by Bank

Last but not least, reporting research findings is not enough to produce a quality research; rather this step must extend to involve data interpretation by giving logical meaning to those findings without bias. In the following part, the researcher discusses the data in relation with the research questions.
Part Four: Discussion and Conclusion

“A celui qui ne sait pas vers quel port il navigue, nul vent n’est jamais favorable”

Sénèque

The objective of this part is to examine the research findings and to discuss those results based on the theoretical framework mobilized in the research at hand since the quality of a research rests on the logic followed along with the coherence among all its elements. Finally, the researcher’s limitations were clarified and a general summary and conclusion to wrap up the work were drafted. The below figure 44 drafts the research’s four parts and give a glimpse on each.

Figure 44- Research Review in a Glimpse
The process followed by the researcher, which covers interviews in the banking field with BOD members and head of compliance besides the review to some internal banks’ documents, led to significant insights related to the level of readiness of Lebanese bank to adapt to the fact of lifting banking secrecy from the Lebanese banking sector from the institutional and agency perspectives.

4.0 Interpretation of Research Findings:

The collected records in part three has provided insights to meet this research’s objective by outlining various points of view to major questions covering the subject at hand which will logically answer the research questions regarding the state of readiness of the Lebanese banking sector to lift banking secrecy. The figure 45 below summarizes the main findings of this researcher:

Figure 45- Summary of Major Findings

The majority of principals in the Lebanese banks argue that banking secrecy will prevail in the sector, while the other three assume a reshaping of the code from its current primitive state. None of the principals who were met expect a total removal of the secrecy code. For instance, the principals in banks 1, 4, 5, 6, 7 and 8 claim different reasons for resisting changing and deny lifting secrecy code from the Lebanese banking sector. Principals’ arguments for resisting change are based on three main pillars.

First of all, principals’ interpretation of banking secrecy code is a main block in the face of the change process. The majority of the principals consider banking secrecy code
as a type of data protection and confidentiality right. For instance, BOD members claim that information sharing is adequate even in the presence of banking secrecy code which is being interpreted as a type of customers’ protection tool.

Second, BOD members declare that currently they are not being forced by the international world to drop secrecy code. Hence BOD admits that **changing shall be triggered by a coercive force to be implemented.** Being able to satisfy the international request with consecutive updates without dropping banking secrecy is seen as satisfactory especially when they are convinced that transparency is not hindered by the “precious” code. In addition, being convinced on their ability to easily change upon request strengthens their opinion of not getting prepared to a new financial phase ahead of time.

Third, benefiting out of the secrecy code fortify BOD members’ arguments. In this regard, BOD admits that the advantages that secrecy code offers to the Lebanese banking sector and the Lebanese economy are sky-high and **not anticipating any benefits out of lifting secrecy** rend the mission of change unattainable. In this perspective, the researcher presents in figure 46 three arguments offered by each BOD members of these banks for not changing and hence rendering the state of readiness for change in their banks questionable.
<table>
<thead>
<tr>
<th>Bank</th>
<th>Source</th>
<th>Interviewees’ Verbatim</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank 1</td>
<td>Principal</td>
<td>“BS distinguishes Lebanon from the surrounding countries...”</td>
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<tr>
<td></td>
<td></td>
<td>“We are able to satisfy our customers with all what they need with BS.”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“Banking secrecy is one of those services to ensure information confidentiality.”</td>
</tr>
<tr>
<td>Bank 4</td>
<td>Principal</td>
<td>&quot;Banking secrecy does not hinder transparency&quot;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&quot;BS is only to protect the confidentiality of our clients.&quot;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&quot;We are very transparent and we are open.&quot;</td>
</tr>
<tr>
<td>Bank 5</td>
<td>Principal</td>
<td>“We are able to set appropriate practices on time to meet the international requirements while keeping banking secrecy.”</td>
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<tr>
<td></td>
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<td>“We are leaders to transparent demand.”</td>
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<td></td>
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<td>“Banking secrecy is very helpful not challenging for the banking sector.”</td>
</tr>
<tr>
<td>Bank 6</td>
<td>Principal</td>
<td>“Banking secrecy does not hinder our operations.”</td>
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<td></td>
<td></td>
<td>“Certain aspects do not have to be transparent ..... Transparency has rules”</td>
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<td></td>
<td></td>
<td>&quot;Clients want comfort zone.”</td>
</tr>
<tr>
<td>Bank 7</td>
<td>Principal</td>
<td>&quot;We do tailor our products to meet customers’ demands.&quot;</td>
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<tr>
<td></td>
<td></td>
<td>“Secrecy is only about confidentiality and data protection”</td>
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<td></td>
<td></td>
<td>“Lebanon applies international rules and standards even in the presence of banking secrecy.”</td>
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<tr>
<td>Bank 8</td>
<td>Principal</td>
<td>&quot;We should be very careful regarding the difference between banking secrecy and numerical account in Switzerland. In Lebanon is not a coded account and Lebanese banks conduct due diligence on all accounts.&quot;</td>
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<tr>
<td></td>
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<td>“BS does not obstruct our banking operations.”</td>
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<td></td>
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<td>&quot;We are transparent now even without removing the code of banking secrecy.”</td>
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Figure 46- Principals’ Convergence to Save Secrecy Code
4.1 Discussion of Findings:
The researcher, in the below section, seeks to discuss interviewees’ answers to assess the level of readiness of the Lebanese financial institutions toward the environmental international pressures to change. Different replies to various questions set in the interview guide provide fruitful tools to do the assessment and answer the research problem.

4.2 Assessment of Interviewees’ Opinions
Interpretation of Adaptation to Earlier Changes
Although a great level of agreement prevails among the three groups of interviewees regarding the high effectiveness level of previous plans set to apply earlier changes required in the sector, there are other faces of major disagreement in this regard among the interviewees. For instance, the fact that the majority of BOD members considers previous changes as organized and quickly implemented while compliance managers and regulators’ consider it as a shock and time consuming for implementation shows that in banks, there will not be consistency regarding getting prepared ahead of time for upcoming changes since people who take the last decision (i.e. BOD members) believe that adaptation will happen when a change factor takes place and there is no need to get ready ahead of time because the decision makers in the Lebanese banks are convinced that they will successfully manage to adapt to future changes once they are requested in a similar way to the previous adaptation processes.

It is worth mention that compliance managers are seen eager to convince BOD members of changing the way of doing business since previous success will not last eternally and could not stand stiff facing international calls for transparency.

Although the result of “not adapting” is devastating to the whole sector and to the Lebanese economy, this finding demonstrates that each group of interviewees present an action plan from his own perspective which will clearly affect their level of readiness to change and their vision regarding strategic choices to be ready in advance.
Interpretation of Banking Secrecy Code

BOD members consider secrecy as a main advantage in the sector that attract deposits and regulators believe that keeping on introducing amendments by issuing further complimentary regulations is enough since the international world has not obliged Lebanon yet to drop its secrecy code and till now the global financial market is satisfied with the changes that are introduced in the sector. For instance, BOD members’ answers indicate that they do not consider banking secrecy and transparency as opposite pillars since the global world have not explicitly object the availability of banking secrecy code in Lebanon. Moreover, BOD members still judge banking secrecy as a privilege that the Lebanese banking sector is still benefiting out of it by considering it a type of customers’ right for privacy and confidentiality. Add to this the fact that BOD members do not anticipate any extra benefits out of lifting banking secrecy and their level of motivation toward this change is impaired.

On the opposite side, compliance managers’ answers shift to the other extreme by considering secrecy as a burden which turns their daily work more challenging since information sharing is limited, by the presence of secrecy code, by a punishable law. Moreover, compliance managers’ assessment of the current low effectiveness of the banking secrecy code meet literature findings that argue that the banking sector in Lebanon cannot rely anymore on its strict secrecy code since adaptation to international regulatory changes is not a choice anymore (Radu, 2014). Otherwise, the Lebanese banking sector would be considered gambling by its destiny for potentially being considered a non cooperative jurisdiction by the international bodies. This answer further indicates that compliance managers are looking forward to ease their duties since it would be much more easy to fight money laundering and terrorism and reach much more efficient and effective solution if banks can share information more freely among themselves while taking into consideration the ethics of the profession. While BOD’s fears of failure and negative motivational states toward this change negatively affect their assessments of their capabilities to embrace proposed change successfully.
Compliance to International Pressures

Although all parties fully agree that Lebanon has no choice but to follow international rules and regulations especially that this country is a dollarized economy and heavily dependent on financial transfer transactions with the world, BOD members deny international requests to drop secrecy and are waiting to be forced to lift it to act accordingly.

Principals and agents argue on the effect of the three environmental pressures from different angles… For instance it has been cleared out that all principals believe on the effect of coercive forces that lead banks to change while only one bank’s principal (bank 7) admits that normative forces exercise a type of pressure on Lebanese banks to change besides the coercive force by stating that

"We visit on a very continuous basis our correspondent bank to keep them pleased with any requirement and in case they need any further steps to be taken so we can do"

From the agents’ point of view, all compliance managers do agree with their principals on the high effect of the coercive force on their banks and their argument extend to reach normative and mimetic forces, compliance managers in the nine banks approaches admit that normative pressures have the same effect as the coercive force.

For instance, compliance manager in bank 1 claims that

" The international world put more and more norms and best practices to decrease the effect of banking secrecy and Lebanese banks have to accept these norms to have financial relation with them....otherwise they do not accept to conduct any banking transaction that relates us."

Additionally, bank 3 compliance manager admits that

“Every year, we have to visit our entire correspondent bank network to check their requirements and we are adapting according to their requests....to build the necessary trust.”
Moreover, compliance manager in bank 9 argues that

"Lebanon needs to be fully coordinating at the international level to have accreditation from the international community."

Regarding the effect of the mimetic pressure, 6 middle managers (Bank 1, bank 3, bank 4, bank 5, bank 7 and bank 9) do confirm the effect of mimetic forces. For instance, the compliance manager in bank 4 admits that

“There is a new trend in the world to fight tax evasion....transparency is the new international trend in the financial world....”

He also added that

“we have a duty to share information with the correspondent banks....we need to enhance our international image.”

Moreover, bank 3 compliance manager admits that

“All banks start to be afraid and to take the necessary steps to convince the international community that we are compliant to avoid being alienated.”

Consequently, the coercive pressure is the only force that could lead BOD members to change while compliance managers are eager to take lessons from the international world and react accordingly before being surprised. For instance, for compliance managers the power of normative pressure equates the power of the laws. In this regards, the agreement among regulators on the importance of following coercive pressures as well as the normative ones was cleared out by issuing specific circulars in Lebanon to respect and save the relations with the correspondent banks at its best form since this network is considered at the heart of successful banking system.

Furthermore, none of the principals interviewed presents the effect of the mimetic pressure on their banks...Principals interviewed do not see any necessity to consider the cultural force since they are certain of their decisions and capability to face international forces once required. Principals in Lebanese banks do believe that they are the winning
entities, by benefiting out of secrecy code, and because they are not forced to drop it now they will work on protecting it. The principals believe that the attainment of organizational legitimacy is gained by following financial rules and regulations where banks can gain social justification. Hence, their actions are only influenced by the coercive institutional context in which they operate.

Environmental pressures cannot be resisted and shareholders cannot master the environment. Interviews’ results show a high state of denial among BOD members regarding the fact of adapting to the international wave of transparency which could harm bank’s destiny. Consequently and since all groups of interviewees admit that international requests cannot be neglected and accordingly, the researcher can conclude that banking secrecy in Lebanon is only applicable at the national level….When it comes to cross borders transactions banking secrecy lose its effectiveness since banks have no choice but to respect international rules or standards to avoid being alienated by the international financial sector. Hence, the importance of more openness among banks to boost up favored governance techniques at the local national level become necessary especially that, from compliance perspective, banking secrecy is not effective anymore and it is not considered anymore a core competency in building banks’ strategy….For compliance managers, banking secrecy law hinders the effective identification of the customers and the serious control of their activities.

Effect on Banks Strategies and Governance Techniques
Although there is consistency regarding potential effect of lifting secrecy code on formulating banks' strategies, this finding indicates that there is a conflict regarding the importance of skimming the environment and hence start getting prepared to a major change in the sector before it really hits. Holding on to banking secrecy code shows that BOD members are not ready to let it go while compliance managers are eager to highlight on other core competencies in the sector and hence start formulating new strategic approach accordingly. In this regards, BOD members believe that banking secrecy should not be eliminated and hence it is not the right time to take this possibility into consideration in formulating their strategies while compliance managers admits that
an expected great effect on banks’ strategies require preparation and readiness to be able to adapt accordingly and avoid being in chaos and hence it is highly recommended to anticipate this change before it takes place.

Furthermore, the importance level of this code on the eyes of BOD members for playing a major positive role in helping Lebanese banking institutions to reach their goals and acting as if there is no pressure to change and that banking secrecy is here to stay will complicate internal work process and hinder compliance managers from applying the requested transparent international requests. For instance, not anticipating positive effects by BOD members on banks’ governance practices out of lifting secrecy code will make compliance work more hectic and always in need for enhanced due diligence actions. **This contradictory assessment regarding interviewees’ vision regarding the destiny of banking secrecy will definitely affect the level of readiness to adapt to change.**

In figure 47 below, the researcher presents a sample of interviewees’ verbatim to highlight their assessments of the three environmental pressures:
<table>
<thead>
<tr>
<th>Bank</th>
<th>Source</th>
<th>Coercive Pressure</th>
<th>Normative Pressure</th>
<th>Mimetic Pressure</th>
<th>Interviewee Verbatim</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank 1</td>
<td>Principal</td>
<td>X</td>
<td></td>
<td></td>
<td>&quot;We introduced the necessary amendment to satisfy the international financial market to stay part of it.&quot;</td>
</tr>
<tr>
<td>Bank 1</td>
<td>Agent</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>&quot;All the amendments were not voluntary introduced by the central bank of Lebanon.&quot;</td>
</tr>
<tr>
<td>Bank 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>&quot;The international world put more and more norms and best practices to decrease the effect of banking secrecy and Lebanese banks have to accept these norms to have financial relation with them....otherwise they do not accept to conduct any banking transaction that relates us.&quot;</td>
</tr>
</tbody>
</table>

"The bank has to save his credibility and sustainability to be socially accepted especially at the international level..."
<table>
<thead>
<tr>
<th>Bank</th>
<th>Role</th>
<th>X</th>
<th>Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank 2</td>
<td>Principal</td>
<td>X</td>
<td>&quot;There is necessity to develop Lebanese laws and regulations.&quot;</td>
</tr>
<tr>
<td></td>
<td>Agent</td>
<td>X</td>
<td>&quot;We are abiding to international rules. The law has changed.&quot;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>&quot;We act at extreme transparent relationship with our correspondent to gain their trust.&quot;</td>
</tr>
<tr>
<td>Bank 3</td>
<td>Principal</td>
<td>X</td>
<td>&quot;We have no choice but to comply with FATCA&quot;</td>
</tr>
<tr>
<td></td>
<td>Agent</td>
<td>X</td>
<td>&quot;We had no choice but to adapt....otherwise we will be out of banking market.&quot;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>&quot;Every year, we have to visit our entire correspondent bank network to check their requirements and we are adapting according to their requests....to build the necessary trust.&quot;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X</td>
<td>All banks start to be afraid and to take the necessary steps to convince the international community that we are compliant to avoid being alienated.&quot;</td>
</tr>
<tr>
<td>Bank 4</td>
<td>Principal</td>
<td>X</td>
<td>&quot;Lebanese banks have to share information under FATCA law&quot;</td>
</tr>
</tbody>
</table>

<p>| 188 |</p>
<table>
<thead>
<tr>
<th>Bank</th>
<th>Role</th>
<th>Statement</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agent</td>
<td>X</td>
<td>For the CRS, the Lebanese government had to issue a law to comply with the international regulation.</td>
<td>&quot;we are coping with all new requirements to gain international authorization&quot;</td>
</tr>
<tr>
<td>Principal</td>
<td>X</td>
<td>&quot;Introducing compliance culture, including FATCA and CRS was a must.&quot;</td>
<td>&quot;There is a new trend in the world to fight tax evasion....transparency is the new international trend in the financial world....&quot;</td>
</tr>
<tr>
<td>Bank 5</td>
<td>Agent</td>
<td>&quot;All these amendments were not voluntary introduced by the central bank of Lebanon including HIPFA&quot;</td>
<td>&quot;The international world is not obliging us rather they are proposing there norms...if Lebanese banks accept these norms we can have relation, if not we can’t.”</td>
</tr>
<tr>
<td>Bank 6</td>
<td>Principal</td>
<td>&quot;Lebanon cannot face international community regulations&quot;</td>
<td>&quot;We are pragmatically adopting all our strategies and plans to copy successful international banks.”</td>
</tr>
</tbody>
</table>
| Bank        | Principal | Agent     | "We have to follow the international laws."
|------------|-----------|-----------|---------------------------------------------------------------------
<p>| Bank 7     | X         | X         | &quot;We visit on a very continuous basis our correspondent bank to keep them pleased with any requirement and in case they need any further steps to be taken so we can do.&quot; |
| Bank 8     | X         | X         | &quot;20% of CEO time is run for compliance issue since it is necessary to adapt to all international standards and best practices to convince them and stay part of the financial market.&quot; |
| Bank 8     |           | X         | &quot;We are living in a dollarized world were all clearance is done in dollar and hence we have to copy them since they control the market.&quot; |
| Bank 7     | X         |           | &quot;We are not doing this by will we are obliged....&quot; |
| Bank 7     | X         |           | &quot;All international requirements become covered by local requirements to be executed...&quot; |
| Bank 8     |           |           | &quot;We apply all the requirements based on the regulations written on the law.&quot; |</p>
<table>
<thead>
<tr>
<th>Bank 9</th>
<th>Agent</th>
<th>X</th>
<th>X</th>
<th>&quot;Any amendment shall be issued by law and then there is no choice but to apply this law&quot;</th>
<th>&quot;It will be much better to start removing BS for the best of the country and to save our good relation with the international regimes. Lebanon can’t fight the world and not apply the international standards&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal</td>
<td>X</td>
<td>&quot;Law after laws will diminish its effect....&quot;</td>
<td>&quot;Lebanon needs to be fully coordinating at the international level to have accreditation from the international community.&quot;</td>
<td>&quot;Banks in Lebanon tend to imitate US banks to gain legitimacy from the international financial platform.&quot;</td>
<td></td>
</tr>
</tbody>
</table>

Figure 47- The Effect of the Three Environmental Pressures
4.3 Assessment of Readiness to Change:
Being influenced by Weiner (2009) definition of organizational readiness for change which is greatly related to the organizational members’ assessment of the change itself and the benefits to be achieved out of the process in the presence of specific resources while taking into consideration various situational factors, the researcher discusses below the level of readiness of Lebanese banks for lifting banking secrecy facing the environmental pressures.

The banking sector by itself is a change-averse sector especially when lucrative benefits are currently harvested in the sector in the presence of banking secrecy. In this perspective, it would be considered hard for strategic decision makers to get convinced to drop the main core competency in the sector as long as successful outcomes are still harvested out of it in the sector despite the vibes of changes emitted by the external environment. This fact comply with what literature reveal regarding the hard challenge in convincing organizations’ decision makers to change their pillars, strategy and governance techniques that prove to be successful with a new proposed change (Rowden, 2001; Armenakis et al., 1993). As a result, it would be hectic and controversial to introduce such major change in the Lebanese banks since the decision makers and strategic formulators do not have a clear vision of the benefits that they will chase after the change as compliance managers do.

The different assessment between banks’ principals and agents regarding the state of readiness to apply specific changes related to coercive pressures presented by the local regulators to satisfy international demand clarifies that there is a gap regarding readiness to apply change factors. Compliance managers want to anticipate the change first and get ready to it before being pressed to implement it in a short notice since there is a need to implement necessary training and governance techniques to ensure efficiency in implementation; while BOD members find that banks are able to implement change within short deadlines and reach effective end results.
For instance, principals in Lebanese banks appear not ready to initiate the change process since they do not perceive any benefits out of it and they do not seem cooperating in this perspective with the attempt of their agents to take normative and mimetic pressures into consideration in the change process. Because cooperative behavior is mandatory to successfully implement the change and in the presence of principal resistance, the level of readiness of Lebanese banks is logically estimated to be low.

Compliance managers claims that being prepared for change will facilitate adaptation and hence getting ready for a new phase of transparency ahead of time is beneficial by spotting and building new pillars in conducting banking transactions aside from banking secrecy that shall not be relied upon anymore. This assessment meet (Corley & Gioia, 2004, Kingston & Caballero, 2008 and Gustafson & Widerlund, 2010), among other researchers, regarding the importance of getting ready to change and being proactive but contradicts BOD members assessment who believes, as per the interviews’ results, that Lebanese banks will be able to adapt once the sector is forced to drop secrecy, in case this happen, and there is no need to take any action by now since it is still available till nowadays and the sector is still benefiting out of it. BOD members’ opposition to lift secrecy code complicates the situation by delaying banks’ readiness for a major strategic change in the Lebanese banking sector.

4.4 Isomorphism in Lebanese Banks’ Reactions
Organizations face environmental and social pressures in order to become homogenous. The concept of isomorphism is explained by this homogenization (DiMaggio & Powell, 1983). Facing all kinds of outside pressures from the environment, organizations attempt to innovate themselves. This innovation may prevail at first for promoting actual performance and to be seen as leaders in the market place, later innovations are adopted to reduce uncertainty and gain legitimacy in the environment. As a result of this process, organizations tend to become homogenous in both structure and process over time (Meyer & Rowan, 1977).

By taking into consideration the institutional theory reflections, isomorphic behaviors reveal in the Lebanese banking sector based on the similarity between banks’ reactions and points of view toward adapting to the environmental coercive pressures applied by
the international agencies. The institutional coercive pressures drive the local isomorphism decisions among Lebanese banks to boost up banks’ legitimacy and grant banks a high level of acceptance by the international environment (DiMaggio & Powell, 1983).

In this perspective, rather than lifting banking secrecy which is considered by the world as the source of financial darkness, Lebanese banks are preferring another strategic alternative: Currently and once forthrightly requested, the sector struggles to amend and issue new regulations and circulars each and every time an international request is issued. Then, a specific period of time is granted for bank to make necessary changes and adapt...This process of reacting to change is not guaranteed to ensure banks’ survival due to the technological advancement, globalization and openness among jurisdictions in conducting their financial transactions. Change process has been accelerated and it has being spread more quickly among countries, therefore a rapid isomorphic change shall be rapidly adopted by the Lebanese banks to meet the powerful external pressures and gain sustainability in the international financial market.

Moreover, due to the high level of international rules and regulations, coercive isomorphism is most likely to increase in the financial industry through the coercive process. This isomorphism is necessary for the Lebanese banks to gain legitimacy and international presence. Since the rule of the game in banking nowadays favor transparency, getting ready for an inevitable fate worth effort and coordination among concerned parties to formulate appropriate strategy accordingly.

Furthermore, in light of the results collected, compliance and agreement is considered the best strategic response for the Lebanese banking sector in response to the coercive isomorphic forces highlighted by the international rules, regulations, and sanctions...Therefore, among the different strategic responses presented by Oliver (1991), acquiescence choice which takes the form of conscious conformity to international requirements is seen prevailing and common among BOD members to avoid sanctions and alienation from the international financial platform. In addition, compliance managers are seen looking forward to adopt acquiescence alternative in response to
mimetic and normative forces as well as coercive pressure. Compliance by imitation of other successful organizations is seen a valid alternative to be followed by the compliance managers. They intend to take actions and copy practices from the international banking environment that has been considered frequent and acceptable regardless of their legal obligatory power. Accepting suggestions and recommendations issued by international institutions, which are not compulsory, are seen necessary to be adopted by the compliance managers to boost up the level of confidence in the Lebanese banking sector given that they believe that these organizations are trusted by the international world for their suggestions to conduct banking activities in excellent manner. From another perspective, looking forward to comply with international best practices to gain a type of accreditation in the international world is seen to be triggered by the normative pressures....Following the logic of appropriateness, compliance managers are eager to apply the best practices in the sectors to gain further legitimacy.

For instance, figure 48 below summarizes BOD and compliance managers approach to change which highlight differences among BOD members and compliance managers in relation to the institutional forces emitted by the external environment.

<table>
<thead>
<tr>
<th></th>
<th>BOD</th>
<th>Compliance Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basis for Compliance</strong></td>
<td>Regulative</td>
<td>Regulative, Social Obligation and Shared Understanding</td>
</tr>
<tr>
<td><strong>Method</strong></td>
<td>Coercive</td>
<td>Coercive, Normative and Mimetic</td>
</tr>
<tr>
<td><strong>Characteristic</strong></td>
<td>Mandatory</td>
<td>Mandatory and Discretionary</td>
</tr>
<tr>
<td><strong>Reason</strong></td>
<td>Profitability</td>
<td>Sustainability, Suitability and Imitation</td>
</tr>
<tr>
<td><strong>Indicator</strong></td>
<td>Rules</td>
<td>Rules, Best Practices and Common beliefs</td>
</tr>
<tr>
<td><strong>Consequences</strong></td>
<td>Legally sanctioned</td>
<td>Legally sanctioned, Morally Averted and Culturally Alienated</td>
</tr>
</tbody>
</table>

Figure 48- Assessment of the Institutional Forces

It is worth mentioning that this isomorphic pressure will make all Lebanese banks much more alike and similar which could lead to inefficiency and ineffectiveness in the whole sector (DiMaggio & Powell, 1983)…Hence, banks have to build new competitive
advantages to differentiate and properly position themselves in the international financial market.

4.5 New Core Competencies and Advantages in the Sector:
For many defenders, banking secrecy is considered a main positive asset in the Lebanese banking sector, but it is not the only asset. It is worth mention that the research was able to shed light on other core competencies that could be reaped out of the sector. For instance, Interviews conducted indicate that other competitive advantages exist in the Lebanese banking sector by admitting high interest rates offered on the deposits as a main factor that attract depositors and investors since customers who have high risk appetite are willing to take the risk of the country to benefit from the good returns offered on their deposits.

Moreover, the customer is not considered a number in the Lebanese banking sector, rather good relation flourishes between the banker and the customers. Hence, this good customer-banker relation and wise risk management are considered some other good assets in the Lebanese banking sector. In addition, compliance managers’ perception regarding anticipating potential benefits out of dropping banking secrecy law comply with the results of a study conducted on almost 50 banks by KPMG and the University of St Gallen which concluded that customers’ would be delighted more when banks’ are fully aware of their preferences which will ultimately enhance banks’ profits. For Instance, compliance managers admit that by eliminating banking secrecy many parties could benefit where more sophisticated products and services could be tailored for the customers, new financial markets that value transparency could be entered by the Lebanese banks…Hence potential market penetration to new countries and this fact will encourage more correspondent bank to work with the Lebanese banks which will positively affect the Lebanese economy.

**Extra Core Competencies in the Lebanese Banking Sector:**
- High interest rates on deposits
- First-class customers-bankers relation
- Wise risk management
- Market penetration
- Openness to correspondent banks
4.6 Agency Conflict Prevailing in the Sector
The agency literature dictates a command relationship, as shown in figure 49 below, between the principal in an organization and an agent, through a contract to act on their behalf where the agent has the role of notifying and updating the principal about its duties without any conflict of interest in performing them and in the best interest to the principal.

![Figure 49- Typical Principal-Agent Relationship](image)

The environmental pressures nowadays in the financial market affect this relation in deep where the agent (compliance managers) becomes closely concerned with the international forces to adopt transparent practices where compliance managers are obliged to obey to the best international practices requested by the international regulators regardless of the principal will and interest. Furthermore, the role of the agent has extended to become a “commander” instead of just a “notifier” to the principal by obliging the whole institution to follow their requests in compliance with the international regulations even when their request affect profit-maximizing principle. In addition, it becomes principal’s responsibility to notify the agent about an anticipated action to be taken in the organization to ensure compliance with the international rules and regulations.

Moreover, the main fear for the principal was that the agent will build personal interest which will create a conflict in the relation and negatively affect the organization. Results show that it is the agent who is constantly aiming to save the organization by complying with the international will. Those agents are convinced that compliance is mandatory and BOD members has to follow since compliance culture is built through a “top-down” approach which will boost up bank’s capabilities to change and to adapt. Thus, potential
conflict could arise due to the insistence of the principal to avoid transparency calls and stick to secrecy privilege and not, as traditionally known, due to the personal interest of the agent.

Additionally, the importance of international standards nowadays which is gained from its coercive status enhances the capability of the Lebanese banks to change and to adapt since either the bank change or the bank goes. The mandatory spirit of the international regulators keeps Lebanese banks in a constant condition to change once requested since this is the only choice they have to stay part of the international financial market.

Figure 50 below illustrates the new type of relation between the principal and the agent in the banking sector.

![Diagram of Principal-Agent Relationship]

Figure 50- Updated Principal-Agent Relationship

At the global level, banking secrecy effect is declining and different forces intervene to diminish its power. Switzerland, the Godfather of secrecy code, had no further excuses and its legacy has been dropped in face of the international forces for transparency and information sharing. Consequently, achieving trust and confidence in the international financial sector become questionable in the presence of the banking secrecy law which is still at its primitive stage since 1956.

For instance, all parties interviewed explicitly admit that Lebanon cannot resist international requests but the challenge prevails in the interpretation. Each party assess transparency and banking secrecy from different angles where BOD members, who believe that the availability of banking secrecy code attract deposits and accordingly increase their profits, neither find any contradiction between international transparency
demands and enjoying secrecy privilege nor perceiving any benefits out of proposed change; while compliance managers, who are limited by the banking secrecy code which render their daily tasks full of challenges, find that transparency is negatively affected by the availability of secrecy code and that plenty of benefits could be caught out of dropping the secrecy law related to better rating of the country as well as better reputation and image and international presence. Compliance managers’ willingness to amend the banking secrecy code to satisfy international quest for transparency and facilitate their daily work in conducting customers’ due diligence and information gathering meet the terms highlighted in the IMF (2017) report regarding classifying banking secrecy law as a barrier for compliance staff in banks that hinder them from reaching efficient and effective outcomes. Compliance responsibilities would be much eased by applying transparent practices which is in the core of conducting their duties and would spare them from taking extra precautions measures to avoid being penalized for piercing secrecy code. This fact justifies compliance managers’ eagerness to drop secrecy since the presence of this code makes their work more challenging.

As a result of this opposite assessment, it becomes almost impossible for the BOD members, who are the ultimate decision makers in the bank, to ensure that compliance managers, who are appointed to fulfill international requests, are efficiently working as per the agreed contract for the best of the bank. Compliance managers can not perceive bank’s sustainability in the shadow of secrecy law while BOD members do not want to get rid of what they believe the core competency of the sector…

By comparing the four change dimensions proposed by Holt et al (2007) to the interviewees’ answers, it can be logically assumed that BOD members are not ready to change since they do not find any type of efficacy or appropriateness in the proposed change although they claim being highly capable to adapt to change once it happens without taking any proactive actions to ensure successful implementation. Hence, BOD members are not supportive regarding lifting secrecy which will complicate successful adaptation. Compliance managers, on the other hand, highly favor the proposed change and consider it very appropriate in today’s transparent environment and hence they admit being ready to start preparing for the new journey by disregarding secrecy code.
However, in the absence of top management support, the mission would be complicated further and the successful implementation would be questionable and not guaranteed. As a result, it is logically to perceive potential conflict among organizational members toward the proposed change.

### 4.6.1 Anticipated Conflict of Interest Between BOD member and Compliance Manager in the Same Bank

<table>
<thead>
<tr>
<th>Bank Category</th>
<th>Bank 1</th>
<th>Bank 2</th>
<th>Bank 3</th>
<th>Bank 4</th>
<th>Bank 5</th>
<th>Bank 6</th>
<th>Bank 7</th>
<th>Bank 8</th>
<th>Bank 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anticipated Conflict</td>
<td>Major Conflict</td>
<td>Moderate Conflict</td>
<td>Moderate Conflict</td>
<td>Major Conflict</td>
<td>Major Conflict</td>
<td>Moderate Conflict</td>
<td>Major Conflict</td>
<td>Major Conflict</td>
<td>Major Conflict</td>
</tr>
</tbody>
</table>

Figure 51- Assessment of Potential Conflict by Bank

Research’s findings indicate that in three out of the nine banks approached by the researcher (Banks 2, 3, and 6), BOD members and compliance managers’ assessments do meet at certain grounds and diverge in others. Hence, the researcher logically interprets this result, as highlighted above in figure 51, to indicate that the level of anticipated conflict and the level of readiness to adapt to change is not similar in all banks. At the end Banks which will succeed are the few who will soon open their antennas to catch the signals of transparency and be proactive in being ready to adapt accordingly.

The researcher assumes a “moderate” conflict in these three alpha banks since the decision makers and the middle managers meet in their assessment toward lifting banking secrecy at certain levels regarding different elements of the suggested change. These banks will take advantages of the change that the environment will bring at an easier and quicker pace than the other banks. For instance, the confession of BOD members in banks 2 that secrecy code is challenging nowadays and it will be gradually modified will facilitate the job of the compliance manager in convincing the principal with the potential benefits that the banks could reap out of the new change and hence get prepared to it especially that in this bank, BOD members and compliance manager, do agree that previous state of readiness to earlier changes was not smoothly applied. Moreover, in banks 3 and 6, the agreement that prevails between the BOD
member and compliance manager regarding the challenging status of secrecy code as well as the potential more benefits to be gained once secrecy is eliminated will diminish potential conflict once change take place especially in bank 3 since the principal in this bank do believe that the code will be ultimately reshaped. It is worth mention, that although the potential conflict is at a minimum level in bank 6, this bank’s state of readiness is not guaranteed since both compliance and BOD members are convinced that adaptation to change is possible on due time without necessary introductory steps.

To smooth the stage of transition to a more transparent culture, which is expected to be easier and more speedy in these three Alpha banks, communicating what will remain the same in the Lebanese banking sector along with what will be different because of this change is necessary to minimize the effect of potential conflict and enhance the level of readiness of these banks to efficiently accept change once it takes place and hence excel over the other “not ready” banks described below.

On the other dimension, central and significant differences on critical major points reveal among BOD members and compliance managers in the same institution in six banks. Research’s findings indicates that in six out of the nine banks approached by the researcher (Banks 1, 4,5,7,8 and 9), BOD members and compliance managers’ stretch on the two extreme in their assessment toward Lebanese banks state of readiness to lift banking secrecy from the sector. This fact will diminish the state of readiness and render questioned the successful implementation of change in these banks.

Because a successful change process is a top down approach that should be adopted by all organizational level to ensure proper implementation, the difference in assessing the situation would predict a potential conflict among the two parties which will negatively affect the level of readiness of the Lebanese banking sector for this change as well as the successful adaptation to the international pressure, as a strategic move, which is seen mandatory by all parties to save the whole banking sector in Lebanon. In this regards, banks that will enjoy success are the one characterized by minimal contradictory assessment toward the change elements. In this regards, successful organizations are the one that would be start launching a communication process among the concerned parties.
to reach a base of agreement since BOD resistance to drop secrecy is mainly caused by not being ready to change which may affect the whole sector position in the economy.

For every bank approached, the researcher brings to light, in figure 52, two key verbatim for every BOD member and compliance manager interviewed. The researcher interprets the interviewees’ answers and accordingly assesses the state of readiness of their banks to adapt to change by taking into consideration the effect of the institutional environmental pressures.
<table>
<thead>
<tr>
<th>Bank Source</th>
<th>Interviewee Verbatim</th>
<th>Interpretation</th>
<th>Conflict</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank 1</td>
<td>“We were always ready to adapt to previous changes and we were not shocked”</td>
<td>“We have to protect our main pillar and core competency in the banking sector.....”</td>
<td>BOD member and compliance manager stretch on the two opposite extremes in their assessment for a major change that is believed to hold no positive returns to the bank although this change is seen very probable by the compliance manager who is looking to catch major benefits out of it.</td>
</tr>
<tr>
<td>Bank 1</td>
<td>“It took almost two years to adapt to one change in the sector highlighted by the adaptation of FATCA law which was a shock for the whole sector.”</td>
<td>&quot;Any country that has banking secrecy is being set under close scrutiny and negatively evaluated.”</td>
<td></td>
</tr>
<tr>
<td>Bank 2</td>
<td>“...Banking Secrecy makes bank’s duties more challenging since it is not anymore the major positive feature that attracts clients, rather extra efforts are required now to attract clients. These efforts shall guarantee no bankruptcy of the bank, a guarantee for the client and good management and corporate governance to ensure safety and returns.”</td>
<td>“No need to remove secrecy, sequence amendments to meet international standards is the only rule......Banking secrecy must be gradually modified to be in line with the global and local development.”</td>
<td>BOD Member and compliance manager diverge regarding their assessment of the potential benefits to be gained out of eliminating secrecy code although both do agree that the availability of secrecy code become challenging nowadays.</td>
</tr>
<tr>
<td>Bank 3</td>
<td>Agent</td>
<td>“The level of transparency will increase once secrecy is abolished.” “Abolishing banking secrecy will lead to more trust and better international acceptance of the Lebanese banks by the international world”</td>
<td>“In practice banking secrecy is finished....it will vanish when we start reporting Lebanese accounts to hundred of countries.”</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Bank 3</td>
<td>Principal</td>
<td>“We may benefits from new technologies”</td>
<td>“It took time to fully implementing FATCA in the bank and it took time for the customer to accept.”</td>
</tr>
<tr>
<td>Bank 3</td>
<td>Agent</td>
<td>“Better meet the expectations of a larger customer base.”</td>
<td>“In 2011 we were surprised by the Lebanese Canadian Bank case. Before this crisis.....the Lebanese banking sector thought that they are not of the international financial game.”.....”It took a lot time and effort to adapt...We had to meet all many representatives of all correspondent banks and we were under close scrutiny and pure investigations.”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>BOD Member and compliance manager agree regarding the time that was needed by the bank to adapt to previous change imposed on the sector and hence the sector was not flexible to change...they do also agree on the necessity to start getting ready to accept international mandatory requests and start looking at new benefits to be gained out of the proposed change...hence, BOD and the concerned manager in bank 3are able to find a state of agreement toward the change and hence lower level of conflict and better level of readiness.</td>
</tr>
</tbody>
</table>
| Bank 4 | Principal | “Banking secrecy does not hinder transparency; it is only to protect the confidentiality of our clients” | ”….Lebanon benefits out of this law because it creates a kind of trust between the depositors and the banks.” | Bank 4 BOD member do admit on the importance of adapting to international rules and regulations but he claims that’s secrecy code do not hinder transparency attempts especially that the international world does not force us to drop it and the sector should save because it benefits out of it...Compliance managers believe that banks should learn from other international institutions and copy best practices to gain accreditation...hence, this divergence in assessing the situation will lead to a conflict and delay bank 4 state of readiness to accept change and adapt.

| Bank 4 | Agent | “Transparency and information sharing are opposite” | “Transparency will help banks to meet customers’ expectations regarding more sophisticated products and services.” | Major Conflict

| Bank 5 | Principal | “We are able to set appropriate practices on time to meet the international requirements ...” | “Banking secrecy is very helpful not challenging for the banking sector” | For bank 5 agent it is very important to scan the environment and start working on strategic

<p>| Bank 5 | | | | Major Conflict |</p>
<table>
<thead>
<tr>
<th>Bank 6</th>
<th>Agent</th>
<th>Principal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“I always thought that banking secrecy in Lebanon would prevail for a long time. But now with the CRS I can’t see how it will be protected... It will be removed.”</td>
<td>“Things in Lebanon do not change in a fast way.... The code as itself will stay”</td>
</tr>
<tr>
<td></td>
<td>“In 1988-1989: Lebanon was classified as a non-cooperative country and the main reason was is that we have BS.”</td>
<td>“Will be more at ease regarding sharing information”</td>
</tr>
<tr>
<td></td>
<td>“It Took Almost Two Years to adopt to FATCA...FATCA was a shock ...”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>alternative ahead of time while on the opposite side BOD member prefer to wait to be forced and then take the necessary action to adapt... He also added that the presence of banking secrecy code nowadays complicated their work and rendered it very challenging especially that no errors are allowed in the compliance aspect. This contradiction will negatively affect the bank state of readiness</td>
<td>Both, the principal and the agent in bank 5 do agree on certain benefits to be gained out of lifting secrecy if it happens although the principal in this bank still believe that there is no rush to take the option of dropping secrecy into consideration since it is will not vanish from the Lebanese sector while compliance mangers are eager to start preparing the bank for a very probable change by taking social conflict</td>
</tr>
<tr>
<td>Bank 7</td>
<td>Principal</td>
<td>&quot;...secrecy code should be protected.&quot;</td>
</tr>
<tr>
<td>---</td>
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<td>---</td>
</tr>
<tr>
<td>Agent</td>
<td>&quot;...Lebanon has to remove it! Full stop.&quot;</td>
<td>“More openness could be possible without banking secrecy”</td>
</tr>
<tr>
<td>Bank 8</td>
<td>Principal</td>
<td>“In Lebanon we have an excellent banking system and an excellent regulated system...and no extra benefits could be earned out of dropping secrecy.”</td>
</tr>
<tr>
<td>Agent</td>
<td>&quot;It would be much easier to fight ML/T crimes and reach much more efficient and effective solution if banks can share information more freely among themselves while taking into consideration the ethics of the profession”</td>
<td>“It took time to implement a previous change related to international request- FATCA- to call all the clients and to prepare the necessary documentations to avoid waiving secrecy without the right to do so.”</td>
</tr>
</tbody>
</table>

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| Bank 9 | Principal | “The secrecy code will be reshaped,...it will be removed step by step, law after laws will diminish its effect....” | “Transparency is available and banking secrecy does not hinder information sharing in Lebanon” | Major contradictions is assessing the different facades of the subject at hand…rules and regulations are seen as the only factors to be followed although the agent in bank 8 do highlight on the effect of normative forces to enhance the level of readiness to change. Hence, convincing the top management to take into consideration the possibility of eliminating a core feature from the sector is setting their strategy would be complicated especially they do not see any benefits out of it. |
| Agent | “Banks must consider adapting their strategies accordingly since it will ultimately vanish...” | “Full transparency and collaboration should exist in the financial transactions” |

Figure 52- Potential Anticipated Conflict
For instance, vibes for change are being emitted by the middle managers all the way up to reach BOD members’ ears to take necessary actions, since they are responsible to determine banks’ strategy and call for major changes, to meet the new requirements sent by the external environment to ensure sustainability. Hence, this research offers a “down to up” calls for change which contradicts previous researches.

Many previous researchers argue on the importance of having change catalysts in the organization to ensure successful implementation of a suggested change…. Interviews conducted in this research favor compliance managers to play this role in the Lebanese banks by planning and organizing the expected change ahead of time and communicating it to the top management especially that a change that is not well planned cannot be effectively implemented but, on the other hand, it can destruct the whole organization.

Opening channels of communication becomes necessary and mandatory to reduce the gap among the concerned parties to reach a state of agreement that would ameliorate the state of readiness of Lebanese banks for this major change in the sector and avoid the deteriorating effect of an unpredicted environmental shock. Hence, convincing BOD members of the banks’ ability to profit out of lifting secrecy code and building on other core competencies is essential to facilitate the change process since an increase level of readiness for change is witnessed when the anticipated change is clearly perceived and understood and positively meets a specific need.

In summary, to reduce this conflict in assessing a major situation in the Lebanese banking sector, applying a sound corporate governance practice, which is unfeasible in the presence of banking secrecy, is deemed necessary. Corporate governance is seen as a framework that reduces agency conflict among managers and shareholders (Shleifer & Vishny, 1992) and therefore have a major effect in diminishing agency cost among them since it cultivates two ways communication. Having two ways communication is necessary to ensure long time survival and sustainable growth (Verhezen & Morse,
At the end, banks that will succeed are the ones that proactively solve internal conflicts to be able to adapt easily by being ready for the change.

As a result, dropping secrecy law is the first step to build sound corporate governance which will eventually improve investment in the banking sector, for being an essential ingredient in this global environment, since investors favor sectors that have high level of efficiency and governance standards.

**4.7 Research Contributions**

This research was able to introduce diverse contributions at different levels. First of all, the research contributes to confirm that the chosen methodology is pertinent for exploring a new phenomenon. Data gathered through the interviews conducted provided new **insights and findings**. The collected information logically contributed to the related literature and theoretical framework of this study.

**4.7.1 Contributions to the Literature**

This research contributes to the literature of readiness to change and adaptation. For instance, the researcher noticed while conducting this study that banking secrecy and its effect has been studied by other researchers from other perspectives and important results were provided. For instance, some researchers found various findings out of eliminating banking secrecy codes. Hobeika (2009) found out that the interest rate on deposits is most likely to increase to offset the effect of removing banking secrecy which will lead to more deposits’ inflows. (Picard & Pieretti, 2011) claims that abolishing secrecy law is seen as a reputation gain for financial institutions. For (Zucman & Johannesen, 2012), eliminating of bank secrecy could switch the attention to other financial activities such as the incorporation of investment funds. Other researchers highlighted negative findings out of this change. According to (English & Shahin, 1994), eliminating banking secrecy could lead to many implications at the country’s monetary, political, economic, social and fiscal dimensions as well as the country’s exchange rate and balance of payments. Bris (2009) declared that dropping banking secrecy will weaken democracy and competition in different nations.

None of the previous studies explored the level of readiness of Lebanese bank to lift banking secrecy specifically from the BOD and compliance managers groups’
perspectives. This research was able to shed the light on potential conflict that may arise between top and middle managers when it comes to a major change which will complicate further the change process. Moreover, the researcher logically concluded that there is a necessity to enhance Lebanese banks’ level of readiness since it was confessed that adapting to external environmental pressures is inevitable.

4.7.2 Contributions to the Theory:

New Principal in the Banking Sector

As a result of this study, the researcher was able to formulate some propositions about a major subject related to the agency theory. Agency theory addresses shareholders as “principals” in their organizations which is not applicable any more in the banking sector. Rather there is a hidden part of the iceberg: the international bodies supersede and become the new principal in the international banking sector. This research logically concludes that shareholders are not anymore considered as the main principal in their banks…Figure 53 below clarifies that actually it is international rules and standards that supersede as if they are the new principal. Shareholders become part of the agents’ group available to satisfy the international requests and their role shift from collecting profit and increase their organizations’ market shares to become tax collectors and detectors for the sake of international financial markets.

Another element that brings a new light to the agency theory is regarding the difference in risk appetite between shareholders and agents. Because all potential losses will be put on the shoulders of shareholders, usually agents are seen as risk taker since they have nothing to lose. This research’s findings identify different formula. Compliance managers are seen as risk averse and are looking forward to close all doors that may jeopardize banks’ presence and international relation at micro level and eventually the whole Lebanese economy at macro level. Compliance managers want full compliance with the international calls for transparency and are calling BOD members to get ready and set appropriate plans to act efficiently and effectively in the absence of banking secrecy. On the other hand, BOD members are seen as risk takers by holding banking secrecy code close to the heart and not taking the fact of eliminating this law into consideration in their strategic decisions and strategy formulation.
Moreover, increasing organizations’ profits is not anymore the only ultimate goals of banks: Middle managers (head of compliance) do play an important role in the strategic change process and they start to be part of the BOD meetings and committees to share their believes regarding satisfying international rules and standards even when this fact could negatively affect organizations’ profits.

![Agency Theory New Principal](image)

**Figure 53- Agency Theory New Principal**

**Causal Relation between Institutional Theory and Agency Theory**

Due to the isomorphic pressures emitted by the environment and the social forces, different strategic responses are seen appropriate by different decisions makers in the organizations to gain legitimacy and ensure proper compliance to these isomorphic three forces: Coercive, Normative and Mimetic; which is considered crucial for survival. This legitimacy justifies organizational behavior to skip being questioned by the various social structures. To gain this crucial element, legitimacy, compliance managers and BOD members assess the situation from different lenses…Compliance managers urge decision makers in the bank to gain legitimacy in the financial industry by operating in the same manner as other international organizations in the same field regardless of effectiveness level that could be resulted out of this change and hence take strategic decisions in
building new core competencies aside from banking secrecy while BOD members are hooked under the secrecy veil to ensure profit maximization and banks’ effectiveness.

As a result, the institutional pressures faced by the banking industry will lead to an agency problem inside the banks among the decision makers. An increase urge by compliance managers in banks calling for organizational compliance towards institutional isomorphism increases the possibility of conflict internally.

4.7.3 Contributions to Management Practitioners

Bank’s sustainability is a major concern for its shareholders. Moreover, in a country like Lebanon, were the banking sector heavily contributes to its GDP and its economic performance, ensuring banks’ success and sustainability is a central preoccupation for regulators and authority bodies. As a result, BOD members who are the ultimate decision makers are under close scrutiny regarding their strategic decisions, plans and actions especially taking into consideration the extreme environmental pressure exercised by the international agencies on this sector. As a result, exploring their organizations’ level of readiness for a major strategic change highlighted by lifting a core competency that existed since 1956 is of utmost importance. This research provides many significant outcomes for BOD members as well as other parties involved in such phenomenon: Top managers, compliance managers and regulators.

The concerned parties interviewed in this study are called to professionally skim and scan the external environment, learn from other countries’ stories and attentively listen to the importance of getting ready to a change to ameliorate the probability of success. Moreover, reducing conflict among different managerial levels is necessary since the adoption of a successful change process covers different hierarchy level.

Furthermore, it should be clear by now to all involved parties that slow reaction to change could be devastating in this age of globalization and technological advancement. Acting while thinking is mandatory and it’s a core condition of organizations’ success.

Finally, applying national laws that contradicts international standards could not last forever. The efforts taken till now by the Lebanese authorities in adapting to international
calls are not sufficient in the presence of the main cause of financial in transparency: banking secrecy. Financial institutions and countries that will succeed are those who start looking forward to sport new competitive advantage in the sector to build on it.

4.8 Limitations and Opportunities for Future Researches

4.8.1 Limitations

The research at hand was influenced by some limitations that the researcher had no ability to manage them. These limitations are believed to have an impact on the research findings and interpretation to a certain extent.

Along with the limitations related to the methodology cited previously in chapter 3.9 in part three of this research, in this below section, the researcher identifies and acknowledges the research’s limitations along with a critical thinking and interpretation of their impact:

Data Collected: The goal of this research is to interpret concerned parties’ points of view; hence the researcher had to take what people say in interviews at its face value. In this regard, several potential sources of bias worth being cited. As human being, interviewees have limited ability to fully remember the past and assess the future accordingly. Having selective memory regarding recalling past events and the encountered experiences in the past in answering some research questions could have its effect on the research’s results. Moreover, some interviewees tend to attribute negative events that happened in the Lebanese banking sector to external forces only without any consideration of their role in these unfortunate outcomes as well as to over simplify some events compared to what is actually suggested from other data. This attribution and oversimplification effects could have potential residual effect in gathering fully reliable and trust worthy answers. To limit the effect of this self reported data, the researcher referred to internal documents to analyze their contents regarding the subject at hand

Unit of Analysis: The research at hand limits its access to only large and medium banks in Lebanon. This choice was based on the assumption that these banks are the one who exercise the great effort and presence in the Lebanese financial industry. On the other
hand, other smaller banks and branches of international banks are also concerned by this phenomenon. This research did not extend to cover these concerned financial institutions as well.

Sample: The research at hand targeted only BOD members and Compliance managers. This choice was based on the researcher’s belief that this is the best approach to respond to the research objective since BOD members are the strategic thinker and that the compliance managers are the one concerned to apply international best practices related to transparency and cooperation with the international world. Therefore, the question of banks’ readiness toward lifting banking secrecy code was expected to bring rewarding results that worth exploring from these lenses.

Sample size: The number of the units of analysis used in this study is considered small. Noting that the sample size is less relevant in qualitative research than in a quantitative research. The type of research problem the researcher is investigating authorizes the use of small sample size since results start to be unified after conducting 14 interviews… The researcher proceeded with extra two interviews in each group of the sample targeted to ensure saturation as well as absence of new findings and insights. For instance, even though saturation was reached there is no total guarantee that other findings would not have took place if the researcher proceed by conducting a larger number of interviews and targeting a wider population.

Findings: This research aim to solely explore whether the Lebanese banking secrecy will be ready to adapt to major change expected in the sector highlighted by lifting secrecy law. The researcher did not extend the study to elaborate on the potential effect on banks’ performance and the financial perspective since this was not deemed the main goal of the work at hand.

The acceptance of the fact that this study encounters certain limitations, as any other research, demonstrates that the researcher has critically questioned the research problem, thoroughly searched in the relevant literature, and appropriately chose the right methodology that best supply insights toward the research objectives. For instance, analysis of this research has been ethically and professionally conducted since the
researcher closely followed the acquired knowledge regarding how to conduct a scientific research at different level related to the research’s design, theoretical framework, methodology used, and data interpretation.

Although the researcher explicitly admits the presence of certain limitations in conducting the study at hand, the researcher believes that the findings concluded out of this work ring the bell for practitioners in the field and open the door for other researchers to dig more in a major subject that worth being fully investigated. In conclusion, possible opportunities could be chased by conducted further researches by looking into more related details. The section below presents potential future questions to be revealed by conducting further studies.

### 4.8.2 Opportunities for Future Researches

One of the main positive faces of the limitations presented above is that they bring new questions that worth further investigation and exploration to light.

Regarding, data collection, further methods to confirm the reliability and credibility of the research’s findings could be approached….focus group among concerned parties could be an example that worth trial.

Moreover, regarding the unit of analysis, this research could be conducted in another environment. It would be interesting for future researchers to study this research’s problem in different countries since this study was limited to Lebanon and by targeting different population, smaller banks, while using most probably the same methodology to explore the different facades of the phenomenon. Then comparing this research’s findings with the new findings could reveal new significant insights…

It is also possible to conduct a similar study by referring to individuals, as unit of analysis, and not banks to figure out whether their interpretations of the subject at hand change.

Regarding the sample targeted, future researches could add more insights to the subject explored in this study by interpreting other concerned parties’ points of view. BOD members and compliance managers are not the only concerned parties to be affected by
the elimination of banking secrecy. Many other internal parties as well as external parties will be closely concerned. For instance, on one hand, what about information technology managers? How will their strategies be affected by benefiting out of cloud computing and new technological advancements which are not possible to be adopted now in the presence of banking secrecy? Furthermore, what about trades finance managers? How will their daily work in conducting international transactions and transfers toward world’s different jurisdictions be affected? Legal departments will be also closely concerned, how will they be affected in formulating bank’s documents and contracts agreements? On the other hand, what about government representatives? Since this meticulous subject concerns politicians in deep. What about customers? What do they expect from the Lebanese banking sector after a major change in its services? How will they react?

Moreover, different related subjects could add more salt and pepper to this research’s outcomes and make it more appealing for the mind. For instance, What could be considered as most “appropriate” strategy once a key feature of the Lebanese banking sector vanish worth being investigated as well as the type of diversification needed in strategy formulation to avoid systemic risk in the sector worth being examined.

Another potential achievable addition to this research is to deepen its findings by conducted related studies using quantitative methods. Preparing a survey and using for example Likert scale to demonstrate the different parties’ attitudes toward the topic being under scrutiny could offer promising results. Introducing BOD members and compliance managers’ demographic data could be useful in assessing the importance of years of experience and educational background of the interviewees in interpreting the research problem. Alike, studying the effect on banks performance and financial returns worth exploration as well.

In conclusion, the researcher scientifically tackled the effect of lifting banking secrecy from the Lebanese banking sector by interpreting BOD members and compliance managers’ points of view and ultimately brought attention to a very controversial subject in the Lebanese banking sector. This research is expected to induce other researchers to search deeper in this field to enlighten practitioners as well as to add new knowledge to the related literature.
4.9 Conclusion

The purpose of this research is to explore the level of readiness of Lebanese back to adapt to environmental pressures and more specifically to a particular phenomenon highlighted by abolishing a core competency from the Lebanese banking sector: Lifting banking secrecy law, and to investigate in particular any potential conflict among BOD members and head of compliance in adapting to this change.

Prahalad and Hamel (1990), Wheelen & Hunger (2012) are among the researchers who highlighted the importance of reading the messages emitted by the environment and being prepared to act accordingly. Organizations’ sustainability in the environment is dictated by a proper long term planning derived from a proper scanning of the external environmental forces in order to take necessary actions to adapt.

Literature reveals a positive relationship between organizational readiness to accept change and its successful implementation within the organization (Holt et al., 2007) since a sustainable organization is the one that is able to change quickly (Burke, 2013); hence the importance of creating a decentralized, flexible structure reveals to adapt with the changing environment and its forces and proactively take necessary actions (Reeves & Deimler, 2011). Facing this contradiction in assessing lifting banking secrecy, banks in Lebanon are seen not highly capable to accept this major change smoothly and hence successful strategic change in the Lebanese banking sector is questionable. At the end strategic management is mainly related to the future long term plan of an organization (Prahalad and Hamel, 1990) while taking into consideration its relation with the surrounding environment and the environmental changes (Wheelen & Hunger, 2012). in order to ensure proper adaptation to the changing environment, BOD members have to play their roles, as primary strategic decision makers, to scan the environment and proactively study the effect of change to ensure successful implementation and adaptation. Being strategically left behind will have its negative impact on the Lebanese banking sector in the future when it come to eliminating a core competency from the sector.

In addition, contradictory assessments regarding adapting to previous processes of change in the banking sector, different interpretations regarding necessary time span to adapt to change, diverse effectiveness level of plans that were taken to adopt to change
elements, various versions regarding strategic alternatives in light of transparency calls, along with the absence of clear vision to prepare to change in order to facilitate implementation will further complicate the change process. For instance, the contradiction in the points of view between BOD members and head of compliance regarding how much they were ready and expecting previous changes that took place in the Lebanese banking sector will have its impact regarding adapting necessary measures ahead of time to become ready to a prospect change, including the elimination of banking law, which is the subject of this research…From the BOD members perspective when the change take place they will adapt but from the compliance perspective, it took a lot of time and effort to be able to meet the deadlines for adaptation and it would be much more easy to get ready for the change before it happens. From the compliance perspective, it would be much more efficient to be proactive and to anticipate the change ahead of time and to get ready for it to avoid falling short with deadlines and to increase the level of efficiency and effectiveness in implementing changes since meeting previous change demands required tremendous efforts from middle managers to reach the effective planned results and they admit that if they were prepared, things could be much easier and more efficient. Hence, the importance of convince BOD members to get ready and prepared ahead of time to meet the new era of transparency.

It is clear from the very beginning that BOD members assess bank’s situation from the end result level (effectiveness of plans that were taken) regardless of the means (effort and time) that were needed, which could be eased, to reach that end. Moreover, BOD members are eager to benefit out of banking secrecy law’s privilege as much as possible before being obliged by the international world to let it go.

With regards to possible conflict among concerned parties, the researcher confirms that, due to the absence of minimum alignment between BOD members and compliance managers in interpreting the studied phenomenon, a divergence is taking place among these two parties in banks and hence necessary actions must be taken to fortify banks’ positions. For instance, it was noticeable from the interviewees’ answers that there is a great gap in interpreting and assessing banking secrecy meaning and its present level of effectiveness as well as its destiny. Consequently, every party in the same organization is seemed acting according to his perception which will definitely lead to a serious conflict.
As a result and in order to facilitate the work that boards and management teams need to do together, there must be investment in the relation itself between the top and the middle managers who shall be granted more space in strategy making and long term decision. Open discussion and communication is not a choice anymore to manage conflicts that will most probable arise. This type of communication would assist BOD members to perceive the benefits seen by the middle managers and to ensure future banks’ success while securing banks’ returns.

To stay competitive and successful, it is necessary to broaden the doors of communication to share the different assessment and points of view among the concerned parties and to act toward fulfilling one clear strategic goal enlightened by an unambiguous vision. The benefits of lifting secrecy to get ready to an inevitable future worth close discussion and adequate investment. In light of the different interpretations regarding this fundamental issue under investigation, the convergence of different parties’ points of view becomes necessary. For instance, middle managers do practice a fundamental role in leading organizational change to success…More specifically, and what concerns work at hand, having a seat for compliance managers on BOD tables is essential to discuss latest trend and related best practices captured from the environment. Cooperation with international world and meeting best practices and international standards is constantly repeated by the interviewees. In this regard, applying compliance request to meet international appeals can be logically stated as “mandatory”, and this result shined in the data gathered through the conducted interviews by all parties and it was seen in the internal amendments that banks had to do each and every time a new regulation take place. But at the same time, BOD members do not have a clear strategic plan or real thoughts regarding neither potential benefits when banking secrecy is lifted nor potential effect on banks’ returns and monetary results.

Moreover, the difference assessment regarding the effect of eliminating banking secrecy on banks’ strategies and governance techniques between BOD members and group of compliance will delay this change from being successfully adopted in the sector especially that BOD members do not perceive any possible benefit out it or even any urge to proceed with this change…Introducing few amendments to satisfy international
requirements is enough for them… Although it was clear that Central Bank of Lebanon
works on implementing all the necessary means to support the economy and to align with
the international legislations in the banking sector. However, existing banking secrecy
law is still on the top of discussions and Lebanon still rate very low in transparency and
high in corruption levels. Hence, it is legitimate to conclude that the efforts of the
Lebanese authorities to assure success in adapting to international requirements are
not enough due to the failure of the authorities to lift banking secrecy laws especially
that regulators reluctance to drop secrecy code and amend the law was explicitly
highlighted in the interviews conducted with the three representatives from the
three main agencies in the central bank of Lebanon (SIC, BCC, CMA) which
comply with literature regarding the benefits that Lebanon still grasp out of the
stringent legal framework regarding customer privacy in conducting financial
transactions (Mousa & Achkar, 2002).

From another perspective, Lebanon, unfortunately, suffer from a high level of corruption.
Lebanon ranks among the top 50 most corrupt countries in the world (FSI, 2015).
Literature suggests that corruption level is high in countries that does not favor high level
of transparency and information sharing in its financial activities (Verhezen & Morse,
2010). Hence, applying transparent practices and dropping secrecy in the banking sector
could be necessary to lower this high level of corruption. At the end, “adoption is the
process of planning for, and then taking on, a change” (Gilbert, 2009). Acting while
thinking and while skimming the environment is a must to ensure survival because
waiting for the storm to take place and then react is not an effective choice as it is viewed
by the BOD members who believe that as they were able to manage and meet
international requests in the past, they will adapt to this potential change once requested.
But who said that history will repeat itself with the same level of success and certainty?

Different interrelated parts make the process of change more complex and the change in
the international financial market will not be limited to lifting secrecy, rather subsequent
changes derived from globalization and technological advancements is expected to open
many new doors that are hard to close. Hence, investing in building banks characterized
by being “a learning organization” where employees are urged to embrace continuous
change become a must in the Lebanese banking sector. Adopting a grey position is not acceptable anymore by the international agencies…Countries are called to be either “black” and prefer secrecy, or “white” and choose transparency and full cooperation. In reality, it is not easy to distinguish clearly and easily between ‘banking secrecy” and “no transparency” and denying the truth and sail in darkness could lead to only one result: Destruction. Sooner or later, the light of full transparency will shine and countries that have lifted darkness and secrecy myth will most probable oppress secret jurisdictions.

One of the main reasons that lead to the high level of confusion in implementing new rules and regulations is too simply the lack of coordination and matching among previously set laws and new one without making any mapping among them. Laws and regulations were not born at this high level of sophistication; rather the current laws are the result of evolvement and development over a period of time (Raghavan, 2007). For instance, assessing secrecy law in Lebanon separately is a simple practice but due to environmental complications and to stay part of the international financial system, Lebanon had no choice but to introduce new regulations that pierce secrecy law from different sides. Lebanon already signed bilateral agreement regarding FATCA law, CRS rule and other multinational agreements and exchange protocols of information which complicated implementation and lead to ambiguous and vagueness in understanding and conducting banking practices.
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Appendix 1: Lebanese Banking Secrecy Code-Law of 1956-

Law of September 3, 1956
On Banking Secrecy

The Parliament has adopted, and
The President of the Republic is promulgating the text of the following Law:

Article 1:

Banks established in Lebanon in the form of joint-stock companies, and banks that are branches of foreign companies, are subjected to professional secrecy, provided that the said Lebanese and foreign banks obtain, for this purpose, a special approval from the Minister of Finance.¹

The Agricultural, Industrial and Real Estate Credit Bank shall not be governed by the provisions of this Law.²

Article 2:

The managers and employees of the banks mentioned in Article 1, and any person who, owing to his/her capacity or position, has access to any means to the banks’ books, operations and correspondence, are absolutely bound by banking secrecy in the interest of the clients of the said banks. These persons may not disclose any information known to them about the clients’ names, funds, or personal matters to any party, be it an individual or a public authority, whether administrative, military or judicial, except when authorized in writing by the concerned client, his/her heirs or legatees, or in case the client is declared bankrupt, or there is a lawsuit involving banks and their clients over banking operations³.

Article 3:

Banks mentioned in Article 1 are entitled to open for their clients numbered deposit accounts whose holders’ identity shall be only known to the manager of the bank or his deputy.

The identity of a numbered deposit account’s holder shall be disclosed only with his/her written authorization, or that of his/her heirs or legatees, or in case he/she is declared bankrupt, or there is a lawsuit involving banks and their clients over banking operations.

These banks are also entitled, under the same conditions, to lease numbered safes.

Article 4:

The funds and assets deposited with the banks mentioned in Article 1 may not be seized without a written authorization from their holders.

Article 5:

The granting of the authorization mentioned in the previous Articles may be priorily agreed upon in any type of contract. Such authorization may not be revoked without the agreement of all contracting parties.

Article 6:

In order to safeguard their invested funds, banks mentioned in Article 1 may exchange confidentially, and only between themselves, any information related to their clients’ debit accounts.⁴
Article 7:

Banks mentioned in Article 1 may not invoke professional secrecy, as stipulated in this Law, upon receiving requests from judicial authorities in relation to illicit enrichment lawsuits, introduced pursuant to Legislative Decree No. 385 of February 18, 1953 and the Law of April 14, 1954.

Article 8:

Any person who intentionally violates the provisions of this Law shall be punishable by imprisonment for a period of three to twelve months. The same punishment shall apply to any attempt of violation.

Public prosecution shall be only instituted through a complaint by the injured party.

Article 9:

All legal texts inconsistent with the provisions of this Law, or at variance with its content, are repealed.

Article 10:

This Law shall become effective two months following its publication in the Official Gazette.

Beirut, September 3, 1956

Signed: Camille Chamoun

Promulgated by the President of the Republic
The President of the Council of Ministers
Signed: Abdullah Al-Yafi

The Minister of Finance
Signed: George Karam
Appendix 2: Curriculum Vitae

Work Experience

Banking Profession:

Middle East Africa Bank, Beirut – Lebanon December 2016 to Present

Head of Procedure and Development Department

Responsibilities include:
- Participating in preparing bank’s policies and procedures.
- Preparing development reports including: code of conduct, FATCA manual, CRS Manual…
- Participating is setting the bank’s strategy
- Participating is setting the bank’s annual report

Middle East Africa Bank, Beirut – Lebanon October 2015 to December 2016

Head of Anti Money Laundering and Fighting Terrorism-Compliance Department

Responsibilities include:
- Permanently assure the efficiency of the global control system.
- Propose actions for improving the risks prevention systems.
- Supervise the unit team work and intensively follow-up procedure implementation and the tasks’ execution assigned to them.
- Submit periodical reports to the Board of Directors on the operations which imply suspicious operation risks.
- Prepare and Conduct seminars.

Middle East Africa Bank, Beirut – Lebanon December 2014 to October 2015

Head of Procedure and Development Department

Responsibilities include:
- Participating in preparing bank’s policies and procedures.
- FATCA Committee member
- Preparing development reports including: code of conduct, FATCA booklet….
- Participating is setting the bank’s strategy
- Participating is setting the bank’s annual report

**Middle East Africa Bank, Beirut - Lebanon**
**Compliance Department**
**Assistant Compliance Manager**
Responsibilities include:
- Implementing AML/CFT Controls
- Implementing FATCA.
- Participating in Business Continuity Plan.
- Updating the bank’s policies and procedures.
- Follow up on compliance matters reported from the audit and risk management departments.
- Plan and schedule the overall future projects, supervise their progress and validate the realizations’ conformity.

**Middle East Africa Bank, Beirut - Location**
**Assistant Risk Manager**
Responsibilities include:
- Contributing in the computation of the Capital Adequacy Ratio-CAR-as per BDL requirements.
- Participating in implementing ICAAP requirements.
- Preparing many BDL and BCC Circulars declarations.
- Assessing business units’ physical security.
- Implementing action plans to reduce operational losses and follow up with involved parties.
- Providing appropriate support and guidelines to all departments and branches regarding operational risk.
- Scrutinizing emerging risks and tracking the incidence of risk occurrence and testing controls.
- Preparing monthly and quarterly reports to the BOD.
Middle East Africa Bank, Beirut - Location Nov. 2008 to Aug. 2010
Operational Risk Officer

Academic Profession:

American University of Science & Technology (AUST) Apr. 2009 to Present
Instructor:
Courses Offered
Marketing Management Consumer behavior
Human Resource Promotional Strategies Organizational Behavior
Accounting

Education

Executive Doctoral Business Administration (Paris Dauphine & USJ) June 2018
MBA (LAU) GPA = 3.97/4 (High Distinction) Spring 2008
B.S. Business (LAU) GPA = 3.69/4 (Distinction student) Fall 2006
Banking and Finance

Awards and Honors

Placed on Highly Distinction list – LAU Fall 2005-Spring 2005-Fall 2006
Placed on Highly Distinction list – LAU Fall 2003-Spring 2003-Fall 2004-Spring 2004
Placed on Highly Honor list – LAU Spring 2002-Summer 2002

Certifications

Certified Anti Money Laundering Specialist-CAMS- Sep 2014
Lebanese Regulations – ESA cooperation with BDL. May 2013
Risk in Financial Services – CISI, Securities& Investments Institute. Feb 2012
Securities & Investments– CISI, Securities& Investments Institute. Sep 2010