BOARD CHARACTERISTICS AND FIRM PERFORMANCE AMONG KUWAITI COMPANIES

By

EBRAHIM MOHAMEED AYEDH AL-MATARI

MASTER OF SCIENCE (INTERNATIOAL ACCOUNTING)

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BY / EBRAHIM MOHAMMED AYEDH AL-MATARI

MASTER OF SCIENCE (INTERNATIOAL ACCOUNTING)

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DECLARATION

I certify that the substance of this thesis has never been submitted for any degree and is not currently being submitted for any other qualifications.

I certify that any assistance received in preparing this thesis and all sources used have been acknowledged in this thesis.

Ebrahim Mohammed Ayedh Al-matari

803872

Othman Yeop Abdullah Graduate School of Business

University Utara Malaysia

06010 Sintok

Kedah

June, 2011

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ABSTRACT

The issue revolving around corporate governance has always been an essential and critical element for both private and public sectors particularly in Kuwait. Kuwait's Prime Minister has even stressed for more concentration on the issues of governance for the purpose of overseeing the effective running of the public and private sector through a check and balance system. Moreover, the Prime Minister argued the need of the firms in the country to benchmark to an effective system that emphasizes on positive issues such as ethics, openness, accountability, transparency, and integrity in the public and private sector. Therefore, this crucial issue has to be addressed accordingly in order to enhance the performance of firms.

It has been generally believed that good corporate governance is a critical factor in the improvement of firm value in both developing and developed financial markets. However, this belief overlooked the fact that the relationship between corporate governance and the value of a firm varies in developing and developed financial markets owing to the character of the corporate governance structures existing in the markets based on dissimilar social, economic and regulatory conditions. This reality calls for the need to examine and comprehend the differences affecting the firm value for the purpose of academic, financial and management practices and public regulation of markets and corporations.

The core aim of the present study is the examination of the relationship between board characteristics and firm performance of non-financial, listed Kuwaiti firms on the Kuwaiti stock exchange. For the purpose of the study, data was collected from a sample of 136 companies for the financial year of 2009. Among corporate governance's various variables, five were chosen to be included in the study namely CEO duality, COE tenure, audit

committee size, board size and board composition and one measures namely return on assets (ROA) was chosen as measures of firm performance.

Furthermore, regression analysis was utilized for the examination of the relationship between board characteristics and firm performance. The result indicates that the relationship between CEO duality and ROA is positive in the significant level. Therefore, this result found that the relationship between CEO tenure and ROA is negative in the significant level. By contrast, this result found that the relationship between audit committee size with ROA is positive with significant level. In addition to that, this result found that the relationship between board size and board composition is negative but not significant. Furthermore, this study using firm size and leverage as a control variables found that the relationship between firm size and ROA is positively insignificant. Finally, the outcome of the relationship between leverage and ROA is negatively significant.

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Ebrahim Mohammed Ayedh Almatari

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LIST OF ABBREVIATIONS

Abbreviation	**Description of Abbreviation**
OECD	Organization for Economic Cooperation and Development
BOD	Board of Directors
CEO	Chief Executive Officer
GDP	Gross Domestic Product
ROA	Return on Asset
EAT	Earnings After Tax
ROE	Return on Earnings
RI	Residual Income
PM	Profit Margin
ROI	Return on Investment
OCF	Operating Cash Flow
EVA	Economic Value Added
MENA	Middle East and North Africa
GCC	Gulf Cooperation Council
CLSA	Credit Lyonnais Securities Asia
OLS	Ordinary Least Squares
NED	Non -Executive Directors
FIRMPFC	Firm Performance
$\alpha 0$	Constant
CEODUATY	CEO Duality

CEOTENUR	CEO Tenure
AUDITSIZ	Audit Committee Size
BOADSIZE	Board Size
BOADCOM	Board Composition
FIRMSIZE	Firm Size
LEVERAGE	Leverage
MCCG	Malaysian Climate Change Group

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Businesses around the world require development and growth in order to attract funding from investors. Before they invest in a particular business, investors normally make sure that the business in question is financially secure and stable and possesses the ability to produce profits in the long run (Mallin, 2007). Hence, in instances where the company position is not as promising, it will not be as attractive to investors as it hopes to be. This failure to attract enough capital normally leads to negative consequences for the business in particular and for the economy in general.

Based on the agency theory, the agency relationship is a contract whereby one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent (Jensen & Meckling, 1976). Nevertheless, the theory also holds the notion of the inappropriateness of management or the agent in taking the best possible action for the public and for the shareholders' sake as the agents generally acts for their own interests. Therefore, for the achievement of a balanced alignment between the principal's and agent's interests, and to remain within the agency budget, different internal as well as external corporate governance mechanisms have been expounded on (Haniffa & Huduib, 2006).

Governments all over the globe, takes recourse in corporate governance for the safety and security of the business environment. According to the Organization for Economic Cooperation and Development (OECD), it has been stated that "good corporate governance is

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