BOARD CHARACTERISTICS AND FIRM PERFORMANCE AMONG KUWAITI COMPANIES

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JUNE 2011

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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.

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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.
ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious and Most Merciful

Above all things, I gave praise, glory, and honour unto Allah for allowing me to complete this project. And also all praise to Allah for all his blessings and guidance which provided me the strength to face all the tribulations and trials in completing this project.

I am indebted to my father, Mohammed Ayeth, for his care and love. As a typical father, he worked industriously to support the family and spare no effort to provide the best possible environment for me to grow up and attend school. My deepest gratitude goes to am Ibrahim my mother; she is simply perfect. I have no suitable words that can fully describe my everlasting love to her. She is forever remembered. Mother, I love you forever.

I owe my loving thanks to am khalil my wife. She has lost a lot due to my research abroad. Without her encouragement and understanding, it would have been impossible for me to finish this work. And also my special love and appreciation go to my children - my precious daughter, Sedra, who was far from me but always present in my heart and Khalil for their support, tireless patience, and faith in me to complete this tedious task.

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Sincerely,

Ebrahim Mohammed Ayedh Almatari
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<tr>
<td>BOD</td>
<td>Board of Directors</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>ROA</td>
<td>Return on Asset</td>
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<td>EAT</td>
<td>Earnings After Tax</td>
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<td>ROE</td>
<td>Return on Earnings</td>
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<td>Residual Income</td>
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<td>Profit Margin</td>
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<td>Return on Investment</td>
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<td>OCF</td>
<td>Operating Cash Flow</td>
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<td>Economic Value Added</td>
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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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References


