CORPORATE GOVERNANCE AND INFORMATION ASYMMETRY AMONG UAE LISTED COMPANIES

SALEH SALEM SAEED BAJREI

OTHMAN YEOP ABDULLAH
GRADUATE SCHOOL OF BUSINESS
UNIVERSITY UTARA MALAYSIA

June 2012
CORPORATE GOVERNANCE AND INFORMATION ASYMMETRY
AMONG UAE LISTED COMPANIES

A project paper submitted to graduate school of business in partial fulfillment of the requirement of the degree master of science of international Accounting

University Utara Malaysia

By

Saleh Salem Saeed Bajrei

802585
PERMISSION TO USE

In presenting this thesis as a part fulfillment of the requirement for a postgraduate degree from University Utara Malaysia, I hereby agree that the University Library may make it unreservedly available for inspection. I further agree that permission for copy of this thesis in any manner, in whole or in part, for scholarly purposes may be granted by supervisor Dr. Nor Asma Lode or, in his absence by the Dean of Faculty Othman Yeop Abdullah Graduate School of Business. It is understood that any coping or publishing or using of this thesis or parts thereof for financial gain shall not be allowed without any written permission. It is also understood that due recognition shall be given to me and to University Utara Malaysia for any scholarly use which may be made of any material from this thesis.

Requests for the grant of permission to copy or to make other use of material in this thesis, in whole or in part should be address.

Dean of Othman Yeop Abdullah Graduate School of Business
University Utara Malaysia
06010 Sintok
Kedah Darul Aman
ACKNOWLEDGMENT

In the name of ALLAH, the most gracious and most merciful
Praise and gratitude be given to Allah the Almighty for putting forward me such a
great strength, patience, courage, and ability to complete this thesis. I owe a great
deal of gratitude to University Utara Malaysia for giving me the chance to pursue my
higher education and to accomplish my purpose of getting this degree, as well as to
whole Malaysia (government and friendly people).

My excessive gratefulness to my supportive and helpful supervisor, Dr. Nor Asma
Lode for her thoughtful guidance, sagacious advices, valuable suggestions, and
precious comments during construction my dissertation. Also, I would like to take
this opportunity to express my appreciation to reviewer Dr. Noriah Che Adam for
reviewing this thesis.

I would like to present my thanks to my mother, wife and all my relatives and friends
those who helped me always on study through the provision of means of comfort to
me and bear all the trouble. I also would like to express my grateful appreciation to
all my lecturers who have imparted me valuable knowledge and know-how during
my study.

I am thankful and appreciate of what I have conquered. To all those people, thank
you so much.
ABSTRACT

This study uses the framework of the agency theory to systematically investigate the relationship between corporate governance mechanisms; board of directors’ characteristics (board size, board independence, duality, board meetings, and director’s ownership) and audit committee size with the level of information asymmetry in UAE. The multiple regression analysis provides evidence that board size is significantly positive related to information asymmetry. While board independence, board meetings, directors’ ownership and audit committee size have a significantly negative association related to information asymmetry. The findings show that the information asymmetry among the United Arab Emirates (UAE) companies is high and the implementation of the Code of Corporate Governance more likely to be underdevelopment.

Keywords: corporate governance, information asymmetry, shareholders, United Arab Emirates (UAE)
# TABLE OF CONTENTS

PERMISSION TO USE ........................................................................................................ III  
ACKNOWLEDGMENT ........................................................................................................ IV  
ABSTRACT ............................................................................................................................. V  
LIST OF TABLES .................................................................................................................... VIII  
LIST OF ABBREVIATIONS ................................................................................................. IX  
CHAPTER ONE: INTRODUCTION ........................................................................................... 1  
1.1 BACKGROUND OF THE STUDY ..................................................................................... 1  
1.2 PROBLEM STATEMENT ............................................................................................... 5  
1.3 RESEARCH QUESTIONS .............................................................................................. 6  
1.4 RESEARCH OBJECTIVES ............................................................................................ 7  
1.5 SCOPE OF THE STUDY ............................................................................................... 7  
1.6 SIGNIFICANCE OF STUDY ......................................................................................... 8  
1.7 DEFINITION OF TERMS ............................................................................................. 9  
  1.7.1 INFORMATION ASYMMETRY ................................................................................... 9  
  1.7.2 CORPORATE GOVERNANCE ............................................................................... 9  
  1.7.3 BOARD INDEPENDENCE ..................................................................................... 10  
  1.7.4 CEO DUALITY ....................................................................................................... 10  
  1.7.5 DIRECTOR OWNERSHIP .................................................................................... 10  
  1.7.6 AUDIT COMMITTEE .............................................................................................. 11  
1.8 ORGANIZATION OF THE STUDY ............................................................................... 11  
1.9 CONCLUSION .............................................................................................................. 11  
CHAPTER TWO: LITERATURE REVIEW .......................................................................... 13  
2.0 INTRODUCTION .......................................................................................................... 13  
2.1 INFORMATION ASYMMETRY .................................................................................... 13  
2.2 CORPORATE GOVERNANCE MECHANISMS AND INFORMATION ASYMMETRY .... 20  
  2.2.1 BOARD OF DIRECTORS ...................................................................................... 22  
  2.2.1.1 Board of Directors Size .................................................................................. 25  
  2.2.1.2 Independent Board Members ...................................................................... 27  
  2.2.1.3 CEO Duality ................................................................................................... 29  
  2.2.1.4 Director Ownership ....................................................................................... 31  
  2.2.1.5 Board of Director Meetings ......................................................................... 32  
  2.2.2 AUDIT COMMITTEE SIZE .................................................................................. 33  
2.3 CONCLUSION ............................................................................................................ 35  
CHAPTER THREE: RESEARCH FRAMEWORK AND METHODOLOGY ......................... 36  
3.0 INTRODUCTION .......................................................................................................... 36  
3.1 AGENCY THEORY ....................................................................................................... 36  
3.2 HYPOTHESES DEVELOPMENT ............................................................................... 37  
  3.2.1 BOARD SIZE ....................................................................................................... 38  
  3.2.2 BOARD INDEPENDENCE .................................................................................. 39  
  3.2.3 CEO DUALITY ................................................................................................... 41  
  3.2.4 DIRECTOR OWNERSHIP .................................................................................. 42  
  3.2.5 BOARD OF DIRECTOR MEETINGS ................................................................ 43
LIST OF TABLES

Table 3.1 Summary of Predictor Variables ........................................49
Table 4.1 Descriptive Statistics .......................................................51
Table 4.2 Descriptive Statistics of Binary Variables ..............................54
Table 4.3 Summary of Regressions Model ..........................................55
Table 4.4 Coefficients Regression Analysis .......................................56
Table 4.5 Correlation .................................................................57
Table 4.6 Variance Inflation Factor and tolerance ...............................58
Table 4.7 Normality Tests ............................................................60
Table 5.1 the Findings .................................................................66

LIST OF FIGURE

Research Framework 3.1 ...............................................................45
LIST OF ABBREVIATIONS

CEO : Chief Executive Officer.

UAE : United Arab Emirates.

OECD : Organization for Economic Co-operation and Development.

GCC : Gulf Cooperation Council.

SPSS : Statistical Package for Social Science.

VIF : Variance Inflation Factor.

GAAP : Generally Accepted Accounting Principles.

IPO : Initial Public Offering.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The asymmetry lies in the difference between what the most informed stakeholders know but the uninformed stakeholders are not informed about certain information. This link impacts growth options, risk, managerial incentives and other factors which mean that the relation does not stem out from an intrinsic doubt regarding the firm performance (Hilary, 2006). Information asymmetry also means when one or more investors are privy to the firm’s value while the rest can only access public information (Brown & Hillegeist, 2007). Relationships between companies and upstream suppliers have always been characterized by information asymmetries in a way that one member of the party to the transaction has more information compared to the other (Martin & Johnson, 2010). For instance, information asymmetries stem from hidden actions, meaning to say that the firm has no idea how the upstream supplier will react when he is acting in an unethical way.

The actual elimination of information asymmetry’s negative impact can be carried out through maximizing the access to information regarding the company that is non-standard and through the increase of the information visibility of what the company offers the stakeholders. The risk lies in the varying interpretation of the information that the company provides which may lead to different stakeholder behavior (Jasso, 2009). According to Mercer (2004), information precision is an attribute of information that underlies disclosure credibility. It is evident that asymmetric information is related with information disclosure. In other words, the less the information is transparent, the lower the information disclosure will be (Kong, Xiao &
REFERENCES


