BOARD CHARACTERSTICS AND FIRM PERFORMANCE:

CASE OF SAUDI ARABIA

A thesis submitted to the Postgraduate Studies Othman Yeop Abdullah

Graduate School of Business

Universiti Utara Malaysia

In partial fulfillment of the requirements for the degree

Master of Science (International Accounting)

Universiti Utara Malaysia

Mohammad Abdel Ghani A Al Damrat

(811053)

January 2014

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.

Mohammad Abdel Ghani A Al Damrat
811053

Othman Yeop Abdullah

Graduate School of Business

University Utara Malaysia

06010 Sintok

Kedah

January 2014

Permission to Use

In representing this thesis of requirements for Master of Science International Accounting (MSc) from Universiti Utara Malaysia, I agree that the university library make it freely available for inspection. I further agree that permission of copying of this thesis in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or, in his absence, by the Dean of Othman Yeop Abdullah Graduate School of Business. It is understood that any copying or publication or use of this thesis or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and Universiti Utara Malaysia for any scholarly use which may be made of any material from my thesis.

Requests for permission to copy or to make other use of materials in this thesis, in whole or in part should be addressed to:

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

Abstract:

Corporate governance (CG) has been a topic of hot discussion not only in business world but also in academic world. This is all due to its complex and scandalous nature. Therefore it is always important to shed some light academically and perform analysis and autopsy on corporate governance failures such as Commerce Bank (1991) Enron (2001), Adelphia (2002), and World Com (2002).

This study investigates the relationship between the board characteristics (board size, board composition, board meeting, board interlock, CEO age and CEO family) and firm performance (ROA) based on the annual reports of 102 companies listed on the Saudi Market starting from 2010 to 2012. The sample of non-financial firms was collected from Saudi Market (Tadawul) as well as from the director's profile in the annual reports.

The results of this study find that board meeting, board interlock and CEO age have no effect on firm performance in the selected sample while board size has strong positive relationship with firm performance (ROA). In addition, it is also noteworthy to note that the relationship between board composition and CEO family is significant negatively. It is recommended that future research take into consideration the investigation of relationship between corporate governance before issuing the Code of Corporate Governance in Saudi Arabia and after issuing them in order to investigate the differences during longer period.

Keywords: corporate governance, Saudi Arabia, Code on Corporate Governance, firm performance, board characteristics.

Acknowledgement

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

Above all things, I gave praise, glory, and honor unto Allah for helping 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 take this opportunity to express a deep sense of gratitude to my father, Abdel Ghani AL damrat for his caring and supporting. Furthermore, my deepest gratitude goes to my beloved mother for her supporting and praying for me to complete this task through various stages as well as encouraging me to proceed my studying. My special love and appreciation go to my brother Dr. Ahmad Damart and all my sisters for their support, tireless patience, and faith in me to complete this tedious task.

My completion of this project could not have been accomplished without the support of my close friends, Osama Mahadeen, Mohammad Ghabayen, Moath Altarawneh, Anas Alhamdan, Ibrahim Al matary and Shehab Eldeen, thank you for helping me and for your time.

Finally, to my caring, loving, and supportive fiancée, my deepest gratitude. Your encouragement when the times got rough are much appreciated and duly noted. It was a great comfort and relief to know that you were willing to support and help me during all the time while I completed my work. My heartfelt thanks.

I wish to express my deepest gratitude and heartfelt thanks to my supervisor, Dr. Noor Afza Amran, for her discerning guidance, positive criticisms and valuable advice throughout the undertaking of this study.

Sincerely,

Mohammad Abdel Ghani Al Damrat

Table of Contents

CHAPTER ONE INTRODUCTION 8

1.1 Background 8

1.2 Problem Statement 10

1.3 Research Questions 13

1.4 Research Objectives 14

1.5 Significance of Study 14

1.6 Scope of Study 15

1.7 Organization of the study 15

CHAPTER TWO LITRATURE REVIEW 17

LITERATURE REVIEW 17

2.1 Introduction 17

2.2 Agency Theory 17

2.3 Corporate Governance 18

2.3.1 Corporate Governance in Saudi Arabia 22

2.3.2 Board Characteristics and Firm Performance 23

2.3.2.1 Board Size 23

2.3.2.2 Board Composition 28

2.3.2.3 Board Meeting 31

2.3.2.4 Board Interlock 34

2.3.2.5 CEO Age 35

2.3.2.6 CEO Family 37

2.4 Summary of the Chapter 38

CHAPTER THREE HYPOTHESIS DEVELOPEMENT 44

3.1 Introduction 44

3.2 Research framework 44

3.3 Hypothesis Development 46

3.3.1 Firm Performance 46

3.3.2 Board Size and Firm Performance 47

3.3.3 Board Composition and Firm Performance 49

3.3.4 Board Meeting and Firm Performance......52
3.3.5 Director Interlock......54
3.3.6 CEO Age......55
3.3.7 CEO Family......56
3.4 Summary of the Chapter......57
CHAPTER FOUR RESEARCH METHODOLOGY......58
4.1 Introduction......58
4.2 Research Design......58
4.2.1 Data Collection......58
4.2.1.1 Procedures of Data Collection......59
4.2.2 Model Specification and Multiple Regressions......60
4.2.3 Measurement of the Variables......60
4.2.3.1 Dependent Variables......61
4.2.3.2 Independent Variables......61
4.3 Data Analysis......63
4.4 Summary of the chapter......63
CHAPTER FIVE RESULTS AND DISSCUSIONS......64
5.1 Introduction......64
5.2 Descriptive Statistics......64
5.3 Correlation Analysis......67
5.4 Multiple Linear Regression Analysis......68
5.5 Discussions......71
5.6 Summary of the Chapter......73
CHAPTER SIX CONCLUSION AND RECOMMENDATION......75
6.1 Introduction......75
6.2 Conclusion......75
6.3 Contribution of the Study......76
6.4 Limitation of the Study......76
6.5 Future Research......77
REFERENCES......78

List of Tables

Table 2.1: A summary of published empirical studies on corporate mechanisms 39
Table 4.1: Operationalised definition of the research variables 62
Table 5.1: Descriptive Statistics of Performance Measures and Continuous Independent Variables 66
Table 5.2: The average ages of CEOs 68
Table 5.3: Correlation Matrix 68
Table 5.4: Cross-sectional OLS Regression of ROA on Corporate Governance Characteristics 70
Table 5.5: Summary of the hypotheses results 74

List of Figures

Figure 3.1: Theoretical Framework... 45

CHAPTER ONE

INTRODUCTION

1.1 Background

Corporate governance (CG) has been a topic of interest all around the world especially in academic circles when some of the corporate scandals and failures came to limelight such as Commerce Bank (1991), Enron (2001), Adelphia (2002) and World Com (2002). Therefore it has been the time of need that corporations had to adopt new business policies and technologies to ensure transparency and accountability. In return this will help attracting investors and capital funds will also help offer financial stability with economic prosperity. No matter how many measures and cautions are taken today's business still operate in competitive and risky environs.

In developed economies there is an academic debate and lot of literature available on the issues pertaining to gap between good and bad corporate governance mechanisms (Shleifer & Vishny, 1997). In order to reduce corporate complexities and minimize corporate governance failure there are many international bodies have been formed for example International Corporate Governance Network (ICGN) and the Organization for Economic Cooperation and Development (OECD). According to report "Principles of Corporate Governance" issued by the OECD issued in 1998 and 2004, corporate governance should focus on the performance of long-term business

environment stability and enrichment the international financial system. This will help on the significance of corporate governance.

One of the important role of the corporate governance is to stabilize the performance of the firm and also to protect the shareholders' interest while ensuring the return on their investments. The return on shareholder's investment will provide a vital economic roles to the business and then practicing good corporate governance enable a harmonious relationship between the firm and attract new investors and capital funds. Therefore good corporate governance can act as an auditor for the top and middle management of an organization. Therefore researches has been stressing the importance of good corporate governance as management tool to improve the organizational performance.

As Kuratko and Morris (2003) stated clearly that in today's technological advancement and modern business environment it is not easy to predict and measure the performance of an organization. However good business practices can resolve the problem of uncertainty and risk in today's volatile business environment.

Agency theory clearly defines the relationship between principals and agents as a contract. As agents are hired to perform duty on the behalf the third party or business. However in order to run the operations smoothly agents are granted some sort of decision making authority (Jensen & Meckling, 1976). Academic circles and modern literature on corporate governance have been shedding light on two impact factors: a) managers and b) shareholders, whose interests are lucid and are always in consonance. However, Dalton and Canella (2003) stated that human are usually

motivated with their self-interests and benefits and not willing to sacrifice their benefits. Therefore there is a tendency of an agent acting on self interest rather taking principle's interest as supreme.

The measures or procedures that of a maximum achievement of the objectives formerly set lead and facilitate the long-term achievement of benefits for stakeholders. Consequently, efficient corporate governance is critical in increasing the interests of all parts of the organizations. In addition, it plays a vital role in facilitating and increasing the efforts of government to guarantee the firms accountability (Vinten, 1998).

Claessens (2003) has stated that corporate governance has two facets; the first is to pave way for the capital from the new shareholders and investments, which will result in creating efficacious employment, eminent investment option and greater development opportunity. The second facet is associated to the potential means of capital cost reduction and greater recognition of worth in terms of the value of business.

1.2 Problem Statement

In the modern financial history two epic and gigantic scandals of corporate governance Enron crisis (2001) and WorldCom (2002) have not only shock the world but have also stressed the need of serious corporate governance monitoring and legislation. These financial disasters have shaken the confidence of investors in the accounting procedures (Becht, Marco & Patrick, 2002). Similarly in the year 2001, top management of Sunbeam Company was charged in involvement in illegal

activities with Arthur Anderson. This not only lead to a court case and civil penalty but also shaken the confidence of stakeholders and investors (Rice & Alabama, 2006). Likewise the global economic and financial crisis in 2008 has caused many organizations to collapse in Arabian peninsula especially in Dubai, even the crisis was named as Dubai crisis since it has caused many businesses to fall like house of card, therefore it has stressed the need of corporate governance more than ever. As a consequence of the said financial predicament, the practice of corporate governance is therefore emphasized and a number of researchers have had their studies based on corporate governance to highlight the advantages and positive results (Shleifer & Vishny, 2000).

With the advent of good corporate governance organizations can control the waste of their resources and management can resolve the problem due to quick decision making which in return help the business to maintain the share price (Keong, 2002). Therefore many researches and studies conducted to understand and study the impact of good corporate governance and firm's performance (Jensen & Meckling, 1976; Jensen, 1993; Adams & Mehran, 2005; Haniffa & Hudib, 2006; Ramdani & Witteloosuijn, 2010).

Therefore, several research studies conducted in different parts of the world came up with different results. Some of the studies found out that firm's performance will improve significantly with improvement in the corporate governance (Baysinger & Butler,1985; Brickley & James, 1987; Rechner & Dalton, 1991; Byrd & Hickman, 1992; Brickley, Coles & Terry, 1994; Rhoades et al., 2001; Coles & Jarrell, 2001; Haniffa & Hudaib, 2006; Amran & Che Ahmad, 2009). On the other hand, other

studies found out that corporate governance cannot effect firm's performance directly (Bathala & Rao, 1995; Kien, Suchard & Jason, 2004; Hutchinson, 2002; Ertugrul & Hegde; 2004). A number of other studies failed to find any form of association that could significantly relate corporate governance to firm performance (Park & Shin, 2003; Singh & Davidson, 2003). When it comes to the corporate governance studies there is dearth of research material, specially, in the case of Saudi Arabia. Therefore there is a need of more investigative studies on the corporate governance and firm's performance.

The Corporate Governance Codes came into practice in Saudi Arabia in the year 2006 and then it was revised again in the year 2009. Due to no regulatory restriction on implementation of the codes of corporate governance in Saudi Arabia is still not been able to adapt to current practices. For example, a lot of CEO's family members and relatives are working as board member. Due to cultural reasons Saudi Arabian business always tends to hire and employ family members as top priority and usually firms still look like family businesses. Due to a huge number of one family are serving in the board or in the sub-committees of the board, it will not only hamper the decision making but will also cause the conflict of interest. Ihsan (2012) clearly noted that the some practices of corporate governance that are being practiced in the developed countries in west may not be suitable in Saudi Arabia and such practices need to be customized in accordance to culture, society and business environment.

Yet, there is a dire need to study the gap about the relationship between corporate governance and firm performance in Saudi Arabian perspective. In comparison to other countries in Saudi Arabia, the practice of corporate governance is still

developing. This is also observed that board of directors and key management enjoys central decision making and powers whereas the transparency disclosures are not being practiced to its spirits. The fragile corporate governance practices are direct result of weak regulatory environment and this may hamper the flow of foreign direct investment. In return it will undermine the confidence of an investor leading to weak economic growth for the region (Ihsan, 2012).

1.3 Research Questions

The following research will be helpful in answering the following research questions:

1. What is the relationship between board size and performance of non-financial listed companies in Saudi Arabia?
2. What is the relationship between board composition and performance of non-financial listed companies in Saudi Arabia?
3. What is the relationship between board meeting and performance of non-financial listed companies in Saudi Arabia?
4. What is the relationship between board interlock and performance of non-financial listed companies in Saudi Arabia?
5. What is the relationship between CEO age and performance of non-financial listed companies in Saudi Arabia?
6. What is the relationship between CEO family and performance of non-financial listed companies in Saudi Arabia?

1.4 Research Objectives

By using six corporate governance characteristics (board size, board composition, board meeting, board interlock, CEO family and CEO age), this research aims to examine the impact of corporate governance characteristics in the performance of Saudi firms by using one firm performance measurement (ROA). This study aims to investigate the association between:

1) Board size and firm performance in the non-financial listed companies in Saudi Arabia.
2) Board composition and firm performance in the non-financial listed companies in Saudi Arabia.
3) Board meeting and firm performance in the non-financial listed companies in Saudi Arabia.
4) Board interlock and firm performance in the non-financial listed companies in Saudi Arabia.
5) CEO age and firm performance in the non-financial listed companies in Saudi Arabia.
6) CEO family and firm performance in the non-financial listed companies in Saudi Arabia.

1.5 Significance of Study

There is dearth in the area of research when it comes to corporate governance studies in the Middle East in general and particularly in Saudi Arabia. Hence, this paper

contributes the knowledge about corporate governance in Saudi Arabia and provides an overview of corporate governance there after six years of issuing the codes of corporate governance. As corporate governance practice is new in Saudi Arabia this paper attempts to increase the understandability of corporate governance.

Therefore this study is helpful for the practitioners to enhance their understanding of the mechanisms of corporate governance affecting the firm performance in Saudi Arabia. In addition, this study is also deemed to augment this field of research, namely corporate governance.

1.6 Scope of Study

This research is taking account only non-financial firms registered at Saudi Arabian stock exchange (known as *Tadawul*) from 2010 to 2012. In total there are 109 non-financial firms registered at stock exchange, however 102 out of 109 have been used due to easy availability of data and information.

1.7 Organization of the study

The chapter one not only encompasses the introduction and background of the study but it also covers the problem statement, research questions, research objectives, significance of the study, scope of study and then the organization of the study.

In the second chapter, literature review has been done and this chapter also reviews the studies related to corporate governance and corporate governance in Saudi Arabia. Then it also covers the studies on the relationship between corporate governance mechanisms and firm performance.

Hypotheses development is done in chapter three. The chapter includes research framework, hypotheses development followed with summary of the chapter.

In chapter four, research methodology is discussed to be used in this study. Later on, in the same chapter research methods, research designs, data collection and model specification and result from multiple regressions are discussed.

In chapter five results from the analyzed data will be discussed. The statistical description and the analysis of correlation and multiple linear regressions will be further elaborated. The final section of chapter five sum up encapsulates The final section of chapter five discourses the results of this study and encapsulate a summarized discussion.

Finally, chapter six summarizes the study by providing conclusion and recommendations. And then in this chapter, contributions and limitations of the study are also discussed.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter highlights and explains firm performance, corporate governance, corporate governance in Saudi Arabia and the relationship between corporate governance characteristics. It is divided into four main sections. In section 2.2 the agency theory. Next, section 2.3, the literature review relating to the development of corporate governance in Saudi Arabia is discussed. The relationship between different type of mechanisms of corporate governance such as board size, board composition, board meeting, board interlock, CEO family, CEO age, and firm performance (ROA) are also reviewed. Section 2.4 summarizes the content of the chapter.

2.2 Agency Theory

The agency theory explains the relationship between a company's principals; shareholders, agents and executives. Agents are hired and their jobs are delegated by principals. The main concern is for agents to act on behalf and in the interest of their principals. The agency theory is founded on the fundamentals of inherent conflict of interest between agent and its principles (Fama & Jensen, 1983). Problem arises when managers acted and worked for their self-interest, which may later lead to

higher cost of shareholder's expenses (Jensen & Meckling, 1976; Fama & Jensen 1983; Eisenhardt, 1989; Agrawal & Knoeber, 1996). During the monitoring process to ensure that agents are acting in the best interest on behalf of their principals, there will be an increase in the cost to the company (agency costs) which will affect the shareholders' interests.

The agency problems are resulted by either the conflict of interests or the costless or difficulties for the principals to verify what the agents are actually doing. Subsequently, the vital duty of the board is monitoring the management activities in order to minimize the agency problems and achieve the superior firm performance Eisenhardt (1989).

According to the agency theory, it is necessary to employ the mechanisms of corporate governance in order to prevent the arising of agency theory problems. The agency theory provides the basis of corporate governance in the course of internal and external mechanisms (Weir, Laing & McKnight, 2002; Roberts, McNulty & Stiles, 2005). As stated by Davis, Schoorman & Donaldson, (1997), corporate governance mechanisms are intended to "*protect shareholder interests, minimize agency cost and ensure agent-principals interest alignment*" (p.23).

2.3 Corporate Governance

The concept of corporate governance stemmed from a theory called the agency theory that takes into account numerous key people such as investor, shareholder, manager and administrators are taken into consideration. The concept of corporate

governance as Cadbury (1992) defined refers to "*the system by which companies are directed and controlled*" (p.14). A more comprehensive definition of corporate governance is taken from OECD (2004) which states that corporate governance is connection or a bridge between the board members, shareholders, stockholders and the company's management. Corporate governance sets the guidelines; through which organizational objectives are set and then resources of attaining those objectives are allocated and determinants for checking the performance are determined.

The conclusion drawn from the definition in previous paragraph reveals that the focus of corporate governance is directed towards the responsibilities and duties of board of directors' to achieve firm's objectives. The concern of corporate governance is also seen in terms of the relationship between firm and both its shareholders and stakeholders. It involves people whom are associated with the firms' affair and problems, either directly or indirectly (Darwish, 2000).

Over the periods of twenty years, corporate governance has always been the subject of interest and today, it still remains at the forefront (Parker, 2005). Voluminous studies have already been researched with regards to the effects of corporate governance have on businesses, such as the reporting quality, earnings management, firm performance, disclosure, and dividend policy. Meanwhile, many factors in corporate governance that attract the researchers' attention, such as rampant corporate frauds and failures of some biggest firms and the financial crisis (Parker, 2005). Referring to Iskander and Chamlo and (2000) the financial crisis in East Asia

region played an important role in forcing countries to take majors steps to enhance governance.

In the agency theory, the agency relationship is understood as a form of settlement, where a mutual agreement is reached between principals and agent. The core responsibility and duty of an agent is rather apparent, that is to maximize profits and to run the firms successfully. Furthermore, corporate governance takes into consideration the shareholders and stakeholders. Author like Mathiesen (2002) suggest that the mechanisms of corporate governance should be taken into account based on the interest of shareholders'. The OECD (2004) regards the corporate governance as a governing approach to manage and control companies. Generally, corporate governance has important implications on growth of the economy as it declines the risk that might be taken by investors, investment capitals, and companies' performance (Spanos, 2005).

Recently, corporate governance is considered as a complex issue as it contains laws, politics, regulations, professional associations, public institutions, and ethics code. Even though, many details of the corporate governance structure of the developing countries' markets are still missing. For the developing countries, the corporate governance system is difficult to develop due to the ambiguous relationship between state and financial sectors. In addition, many aspects might affect the development of corporate governance such as weak and ineffective judicial and legal systems, corrupted political systems, the absent of developed establishments and limited capabilities of human resources (Chowdary, 2003).

When it comes to applying the principle of corporate governance, there is no one single set of principle that can be universally applied to all countries. Although there existed an OECD guideline for general principles of corporate governance, the OECD principles are more applicable for only companies with large number of stakeholders or listed companies.

With regards to the complexity of governance systems, most studies are focused towards the implications of a particular governance approaches. Cadbury (1992) stated that organizations and businesses are the economic engine of an economy. In these companies or organization; board meetings provide basic principle of wealth creation, job creation and devising competitive strategy. In this free drive of competitiveness and wealth creation companies must be accountable and board meetings can be useful in audit and monitoring activities. The guidelines for corporate governance were framed in a rather general approach to entitle countries the liberty to act and apply accordingly as per their need and situation.

Though there has not been a plan to develop a universally accepted model of corporate governance to fit the requirements of all countries, there is a development tendency that is inclined towards global standards (Gregory, 2000). In countries like Saudi Arabia, there are a number of reasons leading to corporate governance. The vital reasons being are the need to sustain reliability and to uphold the quality of public financial information. Moreover, corporate governance is also essential to enhance transparency, integrity and efficiency of capital markets and to also ensure

corporate accountability. All which if maintained, will enhance the confidence level of current investors and bring new investments in Saudi market.

2.3.1 Corporate Governance in Saudi Arabia

Akin to many developing countries, the practice of corporate governance in Saudi Arabia is still considerably substandard and weak. The first Corporate Governance Regulations issued by Capital Market Authority (issued in the end of year 2006 and revised in year 2009) is intended to not only solve the agency problem faced, but also to lure in investors to the country (Ihsan, 2012). The forte of this Saudi Arabian code is its facility to maintain shareholder's rights and to furnish investors with adequate transparent information. Also, the Chief Executive Officer's (CEO) position is not allotted to be held by the chairman. In the other words, with regards to the rules of Corporate Governance Saudi Code, there is no CEO duality.

In the beginning stage, firms were not obligated to comply with the rules of corporate governance. However, at the later part, listed firms are required to comply with certain rules of Corporate Governance Regulations so that shareholder's rights and information transparency are secure. Listed firms are expected to compel to the terms outlined by The Capital Market Authority and to include information as below in their annual report:

i. It is vital to comply with the guidelines outlined in the Corporate Governance Regulations.

ii. The composition of the board of directors and the balance between executive and non-executive (including independent) directors, and the other joint-stock companies directors holding a seat in its board of directors.

iii. A brief description in respect of the composition of committees formed by the board of directors, such as audit, nomination and remuneration committees.

iv. The details of compensation and remuneration paid to the chairman, board members and the highest-paid five executives (the chief executive officer and chief financial officer if they are not amongst the highest-paid five executives); and

v. Any punishment, restrictions or penalty imposed on the company by any executive, judicial authority or any regulatory and the annual review of the effectiveness of its internal audit (Capital Market Authority, 2009).

Companies that do not comply with the above requirements will be penalized by the Capital Market Authority. A penalty fee of Saudi Real 50,000 is to be imposed on any Saudi firm if it does not meet the said terms and the required information needed in annual report information is not in compliance with Corporate Governance Regulations.

2.3.2 Board Characteristics and Firm Performance

2.3.2.1 Board Size

Board size refers to the amount or number of directors that are working and serving in the board (Meckling & Jensen, 1976). The size of the board of directors is in fact,

a debatable manner. The argument is centered towards having seven or eight members as the limited size of board (Lorsch & Lipton, 1992; Jensen, 1993). Others have suggested for the members in the board to be between seven to fifteen directors (Argyropoulou, Koufopoulos & Ogbechie, 2009).

The board of directors has two important functions which are advising and monitoring Raheja (2005). The Saudi Corporate Governance Codes state the following functions for the board of directors:

1. Approving the strategic plans and main objectives of the company and supervising their implementation.
2. Lay down rules for internal control systems and supervising them.
3. Outline a policy in black and white (written policy) to ensure conformity of stakeholder's relationship in order to protect their individual rights and
4. Drafting a Corporate Governance Code for their company, that does not conflict the Saudi Codes (Capital Market Authority, 2009).

The board of directors as according to the Codes of Corporate Governance in Saudi Arabia should consist of at least three and a maximum of eleven members. According to Jensen (1993), smaller board size leads to improved quality performance. But if board size are slightly larger (more than seven or eight members), it may affect the effective functioning of the board (Jensen, 1993). Lorsch and Lipton (1992) study the board size in the US firms and they concluded that the size of the boards in the US firms are crowded which is more costly to the shareholders, reduce the competitive opportunities in market and causes the employees to lose their jobs. They suggest that the board size should be small and

limited around to seven or eight members. They reveal that it is more difficult for directors in the board to express their opinions and ideas if the board has more than 10 members.

As compared to firms with larger board, firms with smaller board size are claimed to have been able to achieve greater performance (Rosenstein & Barnhart, 1998). In terms of cost wise, larger board of directors may be relatively more costly (Topak, 2011). Topak (2011) also sees larger board size as the cause affecting the process of decision-making, communication and coordination in between directors. For firms with smaller board size, it is easier to make decisions, to limit director's incentives, and to monitor members (Hudaib & Haniffa, 2006). However, the worth of firm valuation for firms with smaller board is lower since these firms are less efficient in terms of assets utilization (Mat Nor & Sulong, 2009).

However, Dallas (2001) and Sharma, Mahajan and Chaganti (1985) conclude that large board size enhances and supports decision making in the board because larger board comprises more expertise members that can help to avoid corporate failure.

Previous studies done on relationship between board size and firm performance have produced varied results. It is discovered in most of the studies that the relationship between board size and firm performance is negative (Guest, 2009; Roseinstein & Barnhart, 1998; Van, Postma, & Sterken, 2003; Nagarajan, Cheng & Evans, 2008; Shakir, 2008; Jensen, 1993).

Another stand of previous study supports the idea that large boards are value reducing because they make coordinating, communicating and decision making more complicated (Wells, Eisenberg & Sundgren, 1998). Provan (1980) and Zahra and Stanton (1988) have asserted that larger board size contribute to found effective performance.

Monitoring and coordinating larger groups are more complex and difficult due to the potential interaction among group members (Gladstein, 1984). In the year 1996, Yermack (1996) examined the relationship between board size and firm performance in 452 large US listed firms. His results showed an insignificant relationship between board size and firm performance. In the year 1998, the study of Eisenberg, Sundgren and Wells' (1998) in 879 small listed firms in Finland too have produced negative relationship between board size and firm performance (ROA). Similarly, Peck and Conyon (1998) whose studies are based on samples drawn from five European countries; France, Denmark, Italy, UK and Netherland, too have revealed that the relationship of board size and firm performance in each countries is negative. Similarly, the studies of Lasfer's (2004) in 1424 listed UK firms too have shown negative relationship between board size and firm performance. This is also the case for country like Malaysia where board sizes are found to have negatively impacted firm performance (Mak & Kusnadi, 2005; Haniffa & Hudaib, 2006). Bozeman (2005), Yoshikawa, Phan and Bonn, (2004), and Peyer and Loderer (2002) too discovered negative relationship between board size and firm performance in Japan, Canada and Switzerland respectively.

Finally, larger groups can increase the group conflict (Caldwell, Barnett & Oreilly, 1989). According to Harianto and Singh (1989), larger board size makes the process of achieving consensus and decision making more complex and strenuous. Coordinating and monitoring become more complicated due to large capacity of member interactions (Miliken & Forbes, 1999). It is discovered that for larger board to facilitate effective top management monitoring is quite impossible (Jensen, 1993).

On the contrary, there are several studies that have managed to prove otherwise; that there is a positive relationship between board size and firm performance. For instances, in the study conducted by Pearce and Zahra (1989), it is learned that large boards contribute to better firm performance due to skill variation and experiences. Both of which can better enhance the process of decision making and the monitoring of CEOs' performance (Pearce & Zahra, 1989).

There are also some ideas and debates between experts that a larger board is more effective than a smaller board. Zahra and Pearce (1991) point out that large boards are better because they provide counsel and advice regarding the strategic options of the firms. Larger firms with large boards of directors are likely to get benefits because they have more external contracting relationships and it increases the range of perspectives brought to solve on problems (Finkelstein & Haleblian, 1993).

Experimentally, by using a sample of 35 publicly traded US bank holding companies during 1959-1999 in the US, Mehran & Adams (2005) investigated the association of board size with firm performance and confirmed a definite significant result where

board size is seen to have affected performance in a positive way. Similar results also are found by other studies by (Dalton & Dalton, 2005; Zahra & Pearce, 1989; Pfeffer, 1972; Li & Mak, 2001).

By using a return of assets and profit margin as firm performance measurements, Sunday's (2008) study investigated the relationship between board size and firm performance in 20 listed, non-financial Nigerian firms and the results portray significant positive relationship between board size and firm performance. In Singapore, Li and Mak (2001) also noticed significant relationship between board size and firm performance in 147 listed companies.

2.3.2.2 Board Composition

The subject matter; board composition, has been substantially contested in quite a number of previous literatures. A number of literatures that looked at the relationship between board composition and firm performance have shown diversified results. Majority of these researchers still uphold their belief that an effective board contains a great proportion of external directors.

Board members include both executive and non-executive directors. Executive directors are also known as dependent directors while non-executive directors are referred to as independent directors (Shah, Butt & Saeed, 2011).

Independent board comprised of members who are not the company's executives. The members of independent boards are in no ways related to the firm. The

occurrence of conflict of interest is therefore very minimal because independent directors are not usually interested with material needs (Gallo, 2005). These independent directors have limited access to external information and resources (Ellstrand, Johnson, Dalton & Daily, 1998; Jacobs, 1985).

On the other hand, dependent board members refer to those whom are associated with or employed by the firm and are receiving a certain amount of remuneration or salary. These directors worked full-time and are usually at the top management level of a firm. As compared to external or independent directors, dependent directors possess firm's insider knowledge, which may serve as an advantage to the firm. But then again, the knowledge they harbor may also being misused to serve their own interest as the possibility of them transferring stakeholder's' wealth may prove feasible (Beasley, 1996).

The board of director that comprises both dependent and independent representation of directors is an important mechanism of board structure. According to agency theory, a majority of independent directors on the board enhance its effective and provide superior performance (Witteloostuijn & Ramdani, 2009; Dalton et al., 1998).

Yasser, Entebang and Mansor (2011) investigated the association between board composition and two firm performance measures which are profit margin and return on equity. In his studies; conducted in between year 2008 to 2009 of 30 listed Pakistani companies, he found significant relationship between board composition and the two aforementioned firm performance measures.

Likewise, the results of the study of 91 listed firms in Karachi, Pakistan conducted by Awan and Khan (2012) on the relationship between board composition and two firm performance measures namely; return on assets and return on equity have discovered that larger number of independent directors lead to greater return on assets and return on equity. In a study of 77 listed Ireland firms, Cramer and O'Connell (2010) too discovered significant relationship between board composition and firm performance. External board of directors are said to have performed better according to Weisbach (1988). With regards to the proposition of Weisbach's, Biekpe and Kyereboah-Coleman (2006) and Kosnik (1987), a positive connection where external board members and performance are related was discovered. They have advocated that to surmount the disputes of mediocre firms, firms should augment their board independence. Aligned to this judgment. (Klein, 1998; Yermack, 1996) find out that majority of independent directors leads to poor performance.

In a study of 348 Australian firms conducted by Kiel and Nicholson (2003), the relationship between board composition and firm performance is proven negative. Other studies do not seem to be able to relate board composition to firm performance (Pearce & Zahra; 1989; Weisbach & Hermalin , 1991; Forsberg, 1989). Similarly, Sunday (2008) who have investigated the relationship between corporate governance and two measures of firm performance; profit margin and return of assets for a sample of 20 non-financial listed firms in Nigeria too find no significant relationship between board composition and firm performance.

Capital Market Authority in Saudi Arabia identifies the independent members as "*member who enjoys a complete independence*" (p.3). The following constitutes infringements of the independency:

i. If the member holds a controlling interest in the company or in any other company within that company's group.

ii. If board member has been a senior executive of the company or in the branch of any other businesses within the umbrella of same group of companies for last two years. .

iii. If the board member is directly related to the other board member.

iv. If the member is a board member of any company within the group of the company which he is nominated to be a member of its board.

v. If the board has been an direct employee of a company or has been an employee of a company which is an offshoot of the group or has been associated to the company in any other way, such as auditors or main suppliers; or if he/she, during the preceding two years, had a controlling interest in any such party.

2.3.2.3 Board Meeting

The frequency of board meeting is regarded as a crucial element to operating an effective board. Unanimity that corporate board meetings play an important role in the governance, conformance and performance of companies do exists (Lipton & Lorsch, 1992; Jensen, 1993).

The effect of board meetings on corporate performance is not only influenced by firm-level characteristics, but also determined by country-specific variations such as corporate governance, institutional and legal practices (Karamanou & Vafeas, 2005). According to Ntim (2011), it is important to examine the impact of board meetings on firm performance in developing African countries; where there is an acute lack of empirical evidence will be important in providing a more complete understanding of the effect of board meetings on corporate performance.

Godard (2004) noticed an increase in the number of board meetings, which have also positively impacted the financial performance of French companies. In the same way, Davidson (1998) also discovered positive association of financial performance and the number of board meetings.

There happened to be a positive link between board meeting and firm performance as Conger (1998) sees it. The performance of firm stock is related in a positive manner to first, the number of board meetings and second, directors' attendance meeting frequency (Adams & Ferreira, 2009). For Chinese listed firms however, the frequency of board meeting is seen to have being positively associated to fraud (Cheng, Nagarajan & Evans, 2008). This may possibly denote that during board meetings, the discussions of legal activities are at present.

The benefits of board meetings according to Vafeas (1999) is that through board meetings, more time are allocated for directors to enable them to confer, strategize and to control management. The costs that are associated with board meetings are

managerial time, travel expense, and directors' fees (Vafeas, 1999). As a result, there is a need to have an optimum number of board meetings in order to offset these costs. Lipton and Lorsch (1992) see the lack of time as a major obstruction to achieve board effectiveness. The more frequent board meetings are, the more likely it is that directors are to perform more diligently and as per shareholders' interests (Lipton & Lorsch, 1992; Byrne, 1996). The time of meeting is also regarded as a significant mean to improve board effectiveness. Henceforth, effective meetings are crucial to attain successful performance of the board tasks (Zahra & Pearce, 1989). There is a significant relationship between board meetings with firm performance (Vafeas, 1999). It is evidential that frequent board meetings lead to better director's performance.

Board meetings can be helpful in raising the performance of the board and the organization. For example, Carcello, Hermanson, Neal & Riley (2002) stated that audit work can be done at board meeting which can improve the quality in return.. Beasley, Carcello, Hermanson and Lapides (2000) stated few findings about the frequency of audit meetings and firms involved in fraud.

On the other hand, Vafeas (1999), Kyereboah and Coleman (2007) stated that board meetings may be a cause of low performance of an organization. However, more research like the study of Vafeas (1999) concluded frequency of board meetings is not a determinant of good performance and financial control. Lipton and Lorsch (1992) and Jensen (1993) stated that board meetings may not be useful until there is meaningful ideas are exchanged and regulations are formed. Jensen (1993) stated

that boards should be invisible in the time of performance and they should only step in when the problems begin to happen. Vafeas (1999) finds that frequent board meetings may cause lower profitability and performance in the firm. Jackling and Moreover, Jackling and Johl, (2010) found that no assciation between the frequency of board meetings and firm performance in a sample of Indian firms.

2.3.2.4 Board Interlock

Fama and Jensen (1983) stated that board members serving on different boards in different business or in the same business may cause conflict of interest. Therefore, Council of Institutional Investors Corporate Governance Policies states "Companies have to limit their directors on the number of boards they can serve on to. Under normal circumstances directors should not be serving under more than two boards".

The initial conjecture by Fama and Jensen (1983) found that multiple board appointments may lead to extra workload and may cause the decrease in the quality of directors have been examined in the studies of Gilson (1990), Kaplan and Reishus (1990), and Vafeas (1999). However, few studies found that if directors are serving on more than one boards it may improve the quality of their job since they might be taking extra caution to build reputational capital and also bring diversity to the board of director. Booth and Deli (1995) also vetoed the fact that numerous directorships may assist organizations in building good relationship with their customers, venders and suppliers.

In contrast, Loderer and Peyer (2002) pointed out that seat buildup is negatively related to firm and their reputation especially for the business listed in Switzerland. In Netherlands, there appeared to be a negative effect with regards to the number of interlocks on business performance (Non & Franses, 2007). The hiring of board executives is found to have damaging effects on firm performance (Prinz, 2006).

Innumerable studies have been conducted to suggest that too many directors may reduce the effectiveness and control offered by the role. Core, Holthausen and Larcker (1999) report that directors occupied with many jobs and work may reduce the organizational performance. Shivdasani and Yermack (1999) states that busy directors may be compromising their supervisory and montoring role as they may not be fully capable to represent the interest of shareholders. Fich and Shivdasani (2006) showed that busy directors in a firm may cause weaker organizational performance and fall in organizational profit and revenues. In the end if busy directors happen to take other jobs it might hamper the growth of a business and it will reflect in the financial returns of the firm.

2.3.2.5 CEO Age

Previous literature has provided different opinion about the executive's age and influence on their investment decision. First, Stein and Scharfstein (1990) and Holmstrom (1999) develop market learning models, which states that the younger CEO are more risk averse and invest with caution if we compare them to older CEOs.

It is due the fact that younger CEO make decisions with extra care and caution, since they are new to job and they may face greater pressures from board and the labor market if they make bad decisions. Bad decisions may cause a younger CEO to lose their career. As a result, younger CEOs are only willing to pursue risk aversive investment strategy. According to Amoako-Adu and Smith (1999) in Canada, appointment of a younger CEO or board member can cause a detrimental blow to company's reputation at stock market. It is because investors do not have the confidence on the younger board members and CEO due to their young age and less experience. Therefore, age is also an important element in firm performance.

Becker (1974) proves that older CEO's tend to have stronger responsible and commitment to the firm. Donaldson and Muth, (1998) indicate that older boards represent more responsible and better judgment due to their long experience. Daboud, Rasheed, Priem and Gray, (1995) have found that decision makers with higher age need longer time to make decision referring to the great amount of information, thus, they must seek the best and correct decision. Due to the older managers and their level experience, Simmonds and Brockmann, (1997) have stated a positive correlation between good management and age.

In addition, Yim (2010) proves that younger are more likely to make effectiveness decisions than older CEOs. Li, Low, and Makhija (2011) examine the differences in investment behavior between older and younger CEOs by examining plant-level investment decisions and show that older CEOs have a less aggressive investment style compared to younger CEOs.

On the other hand, younger managers tend to be more innovative than older managers and more risky due to less experience (Olian & Guthrie, 1991). Trapnell, Katz, Campbell, Legman and Lavallee, (1996) find that younger managers nearly to handle creative and new ideas better than older managers.

2.3.2.6 CEO Family

Many researchers found out that it's important to study the relationship at businesses especially when it comes to CEO's family. Researchers found out that corporate governance laws are underdeveloped in that business environment family CEO can play a vital role. However, where there is strong legal system in that business environs non-family CEO can also perform equally good (Jiang & Peng, 2010; Burkart, Panunzi & Shleifer, 2003).

Mixed definitions and inconsistent activation of a family CEO may result from the mixed evidence. In some studies it is defined that CEO is an active member of a family and in some cases it is described as decedent of a CEO or the founder of the firm (Amit & Villalonga, 2006; Gedajlovic, Lubatkin & Schulze, 2003a, 2003b). Therefore its important to differentiate between the types of the CEO's and how they can stimulus firm performance.

Donnelley (1964) demonstrated that role of family CEO on the firm's performance is not clear. Since higher monetary and financial rewards can be achieved that is why family CEO can develop an effective management techniques than the CEO working

to keep the business running as usual (Davis, Schoorman & Donaldson, 1997; Lazear & Kandel, 1992).

However family problems and tensions can cause a negative impact on business if CEO is a family member (Levinson, 1971; Lansberg, 1983; Christiansen, 1953; Hershon & Barnes, 1976). Moreover, sometime family CEO are selected than elected from the small pool of talent available and contesting for the position (Pérez-González, 2006; Burkart, Shleifer & Panunzi, 2003). Therefore, it is still ambiguous to find out that family member can be taken as challenge or part of a problem.

A study in India by Jackling and Johl (2010) shows that companies led by family CEOs do not add value to firm performance. Gedajlovic and Camey (2010) stated that firms with family relationships between members will be relatively limited in their ability and innovation to develop strategic recourses internally and will typically be more dependent on external providers of strategic resources.

2.4 Summary of the Chapter

Therefore, this study aims to discuss the relationship between corporate governance and firm performance. Moreover in this chapter, concepts of corporate governance and how corporate governance is impacting the Saudi Arabia business have been discussed. In this chapter, board mechanisms variables are discussed with the help of previous studies that is: board size, board composition, board meeting, board interlock, CEO age and CEO family and firm performance.

Table 2.1: A summary of selected published empirical studies on corporate mechanisms

Country	Author	Sample size	Year of study	Findings
Board size				
Nigeria	Ogbechie, Koufopoulos & Argyropoulou (2009)	138	2004	Board is involved in high level of decision making and on the other hand there is relation established involvement and corporate governance variable (board size, board independence and CEO duality).
United States	Jensen (1993)	432	1980-1990	Small size of boards is more effective
United States	Barnhart & Rosenstein (1998)	321	1990	Board size is negative in four of the five estimations. Institutional ownership is essentially negative as well,
Malaysia	Haniffa & Hudiab (2006)	347	1996-2000	Board size is dependent on the financial performance of the company and market reputation and size of the firm.
United Kingdom	Guest (2009)	2746	1981-2002	Culture and business environment doesn't support larger board size due to its financial implications.
Malaysia	Shakir (2008)	81	1999-2005	The larger the board size the more it is going to impact firm's performance.
United States	Eisenberg, Sundgren & Wells (1998)	879	1992-1994	Concluded the bigger the firm size the more negatively impact will be on the profitability.
United States	Yermack (1996)	452	1984-1991	States no relation between board size and performance.

Country	Author	Sample size	Year of study	Findings
United States	Zahra & Pearce (1991)	139	1990	Positive relation between board size and performance.
United States	Mehran & Adams (2005)	35	1959-1999	States positive relationship between board size and the performance of a firm.
Singapore	Li & Mak (2001	147	1991-1995	Stresses on the strong relation between board size and performance.
Nigeria	Sunday (2008)	20	2000-2006	Positive impact on board size and performance of the firm.
United States	Provan (1980)	46	1980	Strong relationship between board size and performance.
United States	Zahra & Stanton (1988)	100	1980-1983	Board size is not going to impact the performance.
Board composition				
United States	Beasley (1996).	150	1980-1991	Board composition can help in reducing the financial fraud.
Pakistan	Yasser et al. (2011)	30	2008-2009	Positive impact of board composition and equity.
Pakistan	Awan & Khan (2012)	91	2012	Find a positive and significant association between firm performance and board composition.
Australia	Kiel & Nicholson (2003)	348	1996	Board composition can impact the firm's financial performance.
United States	Ellstrand, & Johnson, Dalton and Daily (1998)	228	1998	Board composition doesn't affect the firms performance in anyway.

Country	Author	Sample size	Year of study	Findings
Ghana	Biekpe &Kyereboah-Coleman (2006)		1990-2001	Board composition can effect firm's performance.
United States	Kosnik (1987)	110	1979-1983	Find a positive relationship between proportion of outside board members and performance.
Ireland	Cramer & O'Connell (2010)	44	2001	Board composition can affect the firm's performance.
Board meeting				
Cyprus	Vafeas, (1999)	307	1990-1994	Frequent board meetings may cause in decline in firm's performance.
South Africa	Ntim (2011)	169	2002-2007	Corporate performance can be enhanced due to frequent number of board meeting.
Tunisia	El-Mehdi (2007)	24	2000-2005	Strong relationship exists between board meetings and firm's performance.
France	Godard et al., (2004)	97	1995-1999	Financial performance of a firm can increase with the frequency of board meeting.
United States	Karamanou & Vafeas (2005)	275	1995-2000	Favorable market response and good management can achieve with structured board meetings.
United States	Jensen (1993)	432	1980-1990	States that a negative correlation between board meeting and firm performance.
South Africa Ghana Kenya Nigeria	Kyereboah & Coleman (2007)	103	1997-2001	States that a negative relationship between board meeting and firm performance.
Board interlock				
United	Booth & Deli (1995)	500	1990	Positive relationship between board interlock and

States				firm performance
Country	**Author**	**Sample size**	**Year of study**	**Findings**
United States	Karamanou and Vafeas (2005)	275	1995-2000	Number of directors can increase the chances to maintain the relationship with supplier etc.
Switzerlad	Loderer & Peyer (2002)	66	1880, 1985, 1990 and 1995	The accumulation of seat is seen to have been negatively related to the value of firm among firms listed in Switzerland
Holland	Non &Franses (2007)	101	1994 - 2004	States that there is undesirable correlation between board interlock and firm performance
United States	Shivdasani &Yermack (1999)	434	1994-1996	There is a relationship between board interlock and firm performance
United States	Fich & Shivdasani (2006)	508	1989-1995	Find a negative correlation between firm performance and board interlock
United States	Core et al. (1999)	205	1982-1984	Find a negative correlation between firm performance and board interlock
German	Prinz (2006)	30	2001-2005	States board appointed executive can cause negative on the firm.
CEO age				
Canada	Amoako-Adu & Smith	124	1999	If family member is of younger age it might caused

	(1999)			negative impact on firm at stock market.
Country	Author	Sample size	Year of study	Findings
Hong Kong, Indonesia, Malaysia, Singapore, South Korea, Taiwan	Jiang & Peng (2010)	877	1996-1997	When the crisis hits different control structures are introduced.
CEO family				
United States	Amit & Villalonga (2006)	500	1994-2000	Family ownership creates value only when the founder serves as CEO of the family firms or as Chairman with a hired
United States	Pérez-González, 2006	335	1980-2001	Negative effect on the performance of a firm with the presence of family member related to CEO.
United States France, Germany and the U.K	Van Reenen & Bloom, 2005	732	2004	Concludes that CEO's family's presence will hurt the performance of the company.

CHAPTER THREE

HYPOTHESIS DEVELOPMENT

3.1 Introduction

The chapter presents the theoretical framework according to the agency theory and hypotheses formulation.

3.2 Research framework

According to agency theory main problems an organization can face when it comes to agents and principals are the conflict of interests. This may lead to misreporting and misinformation as well.

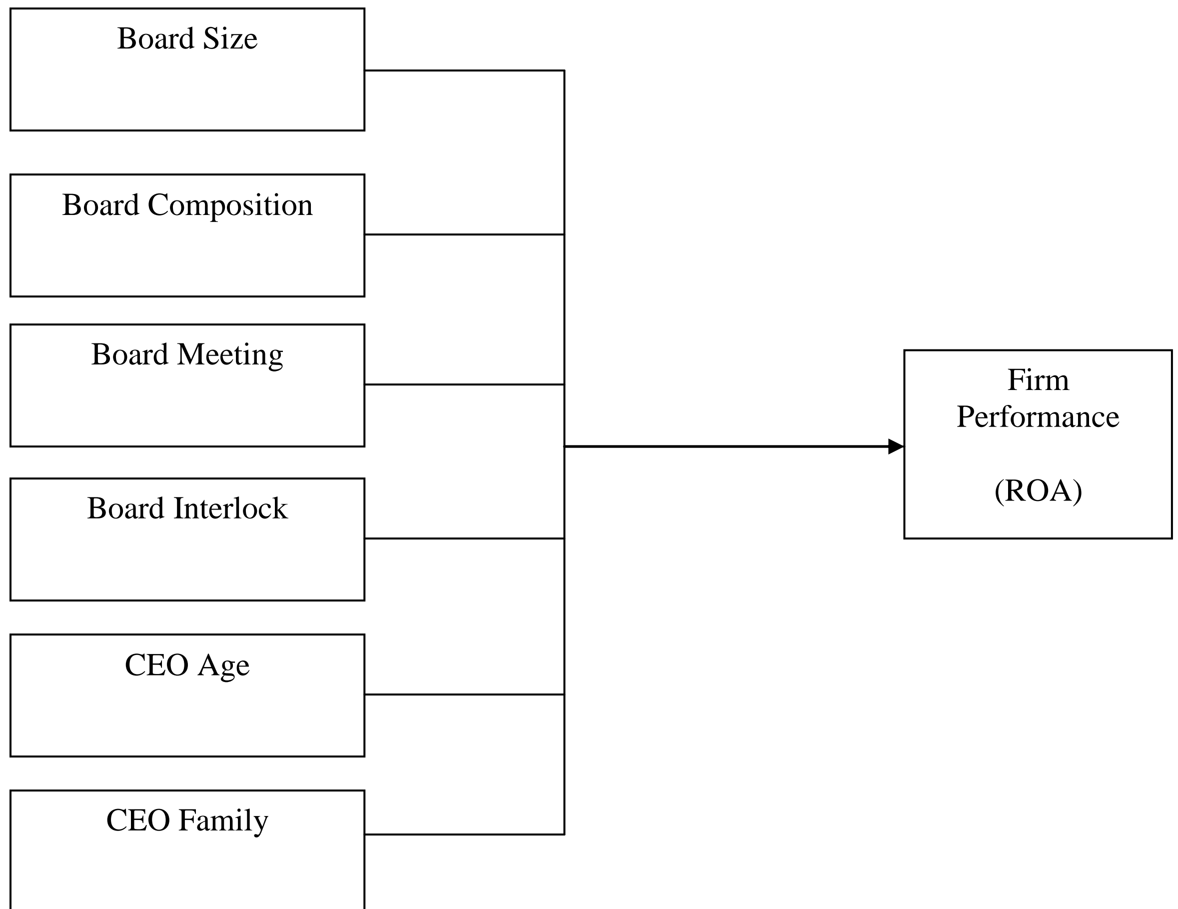
The agency perspective suggests that it is necessary for firm to employ corporate mechanisms when faced with the issue of agency problems. The agency theory provides the platform for corporate governance via the utilization of both internal and external mechanisms. Also, through the agency theory, the relationship between board characteristics and firm performance are being orderly positioned (Kyereboah-Coleman & Biekpe; 2006).

The relationship between corporate governance mechanisms, specifically board size, board composition, board meeting, board interlock, CEO family and CEO age and

firm performance (ROA) in listed companies in Saudi Arabia are being investigated in this study. As listed, these corporate governance mechanisms denote the independent variables of this study whereas the ROA represents the dependent variable which is the income after tax divided by total assets of the company.

The figure below includes both independent and dependent variables portray the model of this study.

Figure 3.1: Theoretical Framework.



3.3 Hypothesis Development

Relationship between dependent variable and independent variables is discussed in this section of the study.

3.3.1 Firm Performance

For this study, return on assets (ROA) is used as the measurement of corporate governance in order to measure firm performance.

The ROA refers to a firm's ability to render profit from the firm's assets which signifies the level of profitability. On top of that, the ROA also measures firm's financial and operating performance (Love & Klapper, 2002). As follows, a higher ROA signifies a more effective use of assets that are in favour of shareholders' advantages (Hudaib & Haniffa, 2006).

Dobbins and Miller (2001) highlighted that ROA as a measurement tool is used to assess firm's overall efficiency, where assets are aimed to draw net income from firm operations. The authors also see ROA as an evidence of effective capital allocation; though the possibility that firm is incompetent in managing capital exist even if the firm is efficient.

ROA has been used widely in corporate governance studies such as (Dalton & Rechner, 1991; Jarrell & Coles, 2001; Khatri, Piesse & Leruth, 2002; Sunday, 2008; Butler & Baysinger, 1985). The focus of this study is centered on independent

variables, namely, board size, board composition, board interlock, board meeting, CEO family and CEO age. The variables guiding the focus of this study are discussed in this section. The objective examines the impact of these variables on firm performance. The explanation on the selected dependent and independent variables are provided in following section.

3.3.2 Board Size and Firm Performance

Roles of board size have been a debatable from different views (Yermack, 1996; Weisbach & Hermalin; Jensen 1993, 2003). Some studies have found smaller boards are better for controlling and improving firm performance (Jensen 1993; Topak, 2011; Yermack, 1996; Rosenstein & Barnhart, 1998; Lipton & Lorsch, 1992). Empirical studies by Yermack (1996) and Eisenberg, Sundgren & Wells, (1998) evidently claim that smaller boards are connected with higher firm value.

For Jensen (1993), stated that board with large number of board members might not be performing up to the mark and it might be difficult for CEO to control or instruct the board. Godard (2002) concluded that boards can only perform better if their size and functionality matches business's objective. Yermack (1996) states that smaller board size can perform better than the larger board size. Yermack (1996) also examines that coordination, communication and decision-making problems badly affect the performance of a company as the number of director increases.

On the other hand, some studies have suggested larger boards may enhance and improve firm performance (Zahra & Pearce, 1989; Li & Mak, 2001; Klein, 1998;

Mehran & Adam, 2003; Sunday, 2008; Pfeffer, 1972). Based on Yermack (1996) the board size is depend on the firm size. Nicholson and Kiel (2003) find that the board size and firm performance have a relationship. Conversely, Lorsch and Lipton (1992) point out that large number of directors in the board shows a negative relationship with firm performance. It increase the agency cost and will slow down the effectiveness of management monitoring. As the board size increases, problems of communication and coordination are evident which turns into different conflict and grouping among the people (O'Reilly, Charles, David, Caldwell & Barnett, 1989).

Larger board size can only perform better when the organizational size is larger (Pfeffer, 1972; Klein, 1998; Mehran & Adam, 2003; Anderson, Mansi & Reeb 2004; Coles & Jarrell, 2001). Klein (1998) stated that usually larger firms have complex organizational structures and in this cases CEO's advice is taken into more consideration than the companies with simple structure. Klein claims that if organizational structures are dependent on external environmental factors than CEO can play better advisory role. Therefore, it can also be said that large board size can benefit the organizations (Pfeffer, 1972; Pearce & Zahra, 1992). Referring to (Pfeffer, 1987; Pearce & Zahra, 1992; Goodstein, Gautam & Boeker, 1994) larger board size comes with variety of experience, knowledge and skills which can benefit the organization.

The agency theory says that larger boards allow efficient monitoring by reducing the powers of CEO within the board and protect shareholders interests (Harianto &

Singh, 1989). In addition, larger companies need larger boards to control and monitor the management actions.

Organizational performance and board size has been discussed widely in many recent literature and scholarly publications at great length. In many scholarly contributions academics found direct relationship between the board size and the performance of an organization (Yuanto & Mak, 2003; Shakir, 2008 Weisbach & Hermalin, 2003; Bonn, Phan & Yoshikawa, 2004; Yermack, 1996; Haniffa & Hudaib, 2006; Sunday, 2008).

On the other hand many scholars claim that board size can be detrimental to an organization's performance (Li & Mak, 2001; Adam & Mehran, 2005; Pearce & Zahra, 1989; Dalton & Dalton, 2005). In short, it can be said that the smaller board size can benefit the organization and where conflicts can be resolved by the CEO easily and this can result in cost saving, quick decision making and huge chunk of the profit for the organization. This is also helpful in effective management. This directs to the first hypothesis:

H1: There is a relationship between board size and firm performance.

3.3.3 Board Composition and Firm Performance

Board composition defined as independent directors in the board. The large number of independent board directors can help in external cost and help company to make decisions favorable for her growth. Independent directors can help in effective management, better control and also help in curbing the malpractices in an

organization (Jensen & Meckling, 1976). As stated by Butler and Baysinger (1985) that independent directors provide better services to the organization.

In order to achieve the goals of the organization. (Mallin, 2007) concludes that the balance of independent non-executive directors should be kept. The non-executive directors have to be independent from management and excluded from all the business or links which could influence the act of independent judgment (Cadbury, 1992). In the same scenario, OECD (2004) show the objective of board independent is to get enough number of directors who are completely separated from the management.

The results of previously investigated relationships between board composition and firm performance were found to be inconsistent. According to Millstein and MacAvoy (1998) there is a positive relationship between the independent board of directors and firm performance in the US companies. furthermore, Kosnik (1987), Kyereboah-Coleman and Biekpe (2006) also stated that board strength can be measured by the number of independent director present in the board. Collins and Kinney (2006) also concluded that number of non-executive directors can help the firm in enhancing her reputation and market value. Furthermore, O' Sullivan (2000) concluded after investigative study based on 42 UK based companies and suggests that non-executive directors and interdependent directors demand more quality audit and transparency in the decision making process which by large effects the company's reputation and market value positively. rage more intensive audits as a

complement to their own monitoring role while the reduction in agency costs is expected.

Omar (2003) and Rhoades, Rechner and Sundaramurthy (2000) examined a positive relationship of board composition with financial performance. Krivogorsky (2006), Lefort & Urzúa (2008) and Connelly & Limpaphayom (2006) also realized strong connection between board composition (the proportion of independent directors on the board) and firm performance. Hasnah (2009) found that notable relationship exists between board composition and firm performance that is measured by ROA.

However, some author`s studies find a negative relationship between board composition and firm performance (Baysinger & Butler, 1985; Klein, 1998; Haniffa & Hudaib, 2006). Coles and Jarrell (2001) pointed out an undesirable influence of independent directors on organizational performance. Erickson, Park, Reising and Shin (2005) also indicate a negative relationship between greater board independence and firm value.

Sunday (2008) performed an investigative study on Nigerian listed companies and stated that the connection between board composition and firm performance can be measured by using return on assets and profit margin obtained from the annual report. He was unable to provide a remarkable relationship between them. Bhagat and Black (2002) claimed that there is no vital connection between the composition of the board and the firm’s reputation.

Other studies (Hermalin & Weisbach, 1991; Bhagat & Black, 2002; Fosberg, 1989; Yermack, 1996; Klein, 1998; Agrawal & Knoeber, 1996) were unable to develop a considerable relationship between non-executive directors and firm performance. Generally it can be taken as the effective performance of the board depends on having the right proportion of executive and non-executive directors on the board (Jensen & Fama, 1983; Hoskinsson & Baysinger, 1990; Zahra & Pearce, 1992). An hypothesis is concluded here:

H2: There is a relationship between board composition and firm performance.

3.3.4 Board Meeting and Firm Performance

Vafeas (1999) and Carcello, Hermanson, Neal and Riley (2002) board effective performance depends on how frequently board meetings are taking place and how board members are involve in deliberating and decision making process; this will also help in increasing the control and monitoring activity over the firms performance. Board meeting can be conducted in different forms for example preparation before meetings, attentiveness, meetings, participation during meetings and post-meeting follow-up however only official board meetings can be taken as public or audit activity (Carcello, Hermanson, Neal & Riley 2002).

Conger, Finegold and Lawler (1998) concludes that board meeting can help in raising the firm's performance. The increase in number of board meetings can help management, stakeholders and employees in realizing the interest of board members in their work and efforts in meeting organizational goals (Vafeas, 1999). Scholars (Lipton & Lorsch, 1992; Byrne, 1996) concluded that board meetings will also give

boast in confidence of shareholders and stakeholders of the company. Vafeas (1999) stated there is a strong connection between firm's performance and the board meeting. Beasley, Carcello, Hermanson and Lapides (2000) shared his findings that the organizations with more baord meetings are less likely to be involved in fraud. Lawler, Finegold, Benson and Conger (2002) are also of same view that board meetings can enhance the firm's performance. On the other hand, Uzun, Szewczyk & Varma (2004) concludes that there is no strong connection between board meetings, performance and firms involved in any fraudulent activity.

While discussing agency perspective, it is important to notice that the basic function of baord is to monitor, reduce costs and help manager with quick decision making. Board can only perform effectively if board meetings are regular phenomena (Latendre, 2004) and depict deep interest and resilience in the monitoring (Carcello et al., 2002). Zahra and Pearce (1989) postulate that board members involve diligently in their work can result in better monitoring activity and it will enhance the business performance in result. While using agency monitoring technique and skills, it is lot easier for the board members to attain better control of decision making and monitoring activities than to change board's attribute and characteristic (Vafeas, 1999). Lawler et al. (2002) pointed out the strong connection between board and firm performance. Increased board meetings can help directors to discuss deliberate, delegate tasks and formulate policies useful for organizational growth. In order to enhance firm's performance and protect shareholder equity, increase in board meeting can play a vital role rather than changing attributes of board. Based on the previous discussion, the formulation is as followed:

H3: There is a relationship between board meeting and firm performance.

3.3.5 Director Interlock

The number of busy directors is the number of directors who serve minimum three other boards. Theoretical and empirical research recently spotlights the importance of busy directors for board process. Mace (1986), Rosenstein and Wyatt (1994), Loderer and Peyer (2002) among others show that busy directors are especially valuable in enhancing a board advisory and monitoring functions. Harris and Shimizu (2004) found that such directors are important source of knowledge and can, in particular, enhance acquisition performance. Field, Lowry and Mkrtchyan (2011) show that directors with multiple board seats (due to their experience and contacts) are excellent advisors and sought after by IPO firms. Haunschild and Beckman (1998) posit that positive effect of having busy directors on a company board can be extended from a single company to an entire corporate system due to the innovation dissemination throughout a corporate network.

Some scholars, however, are more skeptical on the view that busy directors serve shareholders' interests and add value to the firm. Core, Holthausen, and Larcker (1999), and Shivdasani and Yermack (1999) suggest that directors can overly engage themselves in serving on multiple boards, rendering them unable to provide meaningful managerial monitoring. Fich and Shivdasani (2006), Jiraporn, Davidson, DaDalt, and Ning (2008) have a point of view that boards with busy directors are associated with lax corporate governance. Jiraporn, Kim, Davidson, and Singh (2006) connect busy boards to weaker performance and lower firm value. Despite a

growing body of empirical evidence on the roles of busy directors, the link between board busyness and financial risk is largely unexplored. Fich and Shivdasani (2006) concluded that firm with rampant nonproductive board meetings or independent board directors few than three seats can lead to financial difficulties and decrease in market value and reputation of a company.

Contrary to above results, Ferris, Jagannathan and Pritchard (2003) could not locate any relationship between the number of board appointments and firm performance. Thus, based on the discussion above, it is hypothesized that:

H4: There is a relationship between board interlock and firm performance.

3.3.6 CEO Age

CEOs have the authority to make decisions in a firm. It gives a significant role to CEO in explaining the changes in corporate decision making. The theories we have so far say that CEO`s age is an important factor in corporate decisions. A CEO`s age can affect investment choices. According to market learning models, younger CEOs invest less than older CEOs. Younger CEOs lack records of accomplishment, are found to be more reluctant to take big risks because a bad investment decision could reduce their future career opportunities.

On the other hand some academicians found that some older CEOs invest with cautions and moderately as compare to younger CEOs who make bold decisions due to easy access to information which is due to available technology helpful in decision making (e.g., Prendergast and Stole (1996)). Moreover, if CEOs have greater control

on the board then these boards might prefer status-quo environment for the organizations; which might lead in to low interest level of interest for the new investors in the market and low level of product & services innovation (Bertrand & Mullainathan, 2003). This leads to the fifth hypothesis:

H5: There is a relationship between CEO age and firm performance.

3.3.7 CEO Family

Experts found that the family companies that aim to run their business for next generations perform better than non-family companies. The study found that the family CEO plays an important role in governing family companies, and family members serve as managers (Miller & Breton Miller, 2006). Based on accounting performance measures, Anderson and Reeb (2003) pointed out that family companies perform better when the founder is the CEO, but not under the descendant's management. A study by Dollinger and Daily, (1992) find that outside-CEO managed companies are larger, older and follow more aggressive strategies.

In contrast, family-owned companies are smaller and use less aggressive strategies, but achieve higher performance than outside-CEO who managed the companies. Almeida, Adams and Ferreira (2009) results indicate that the good and bad past accounting performance increase the likelihood that founder-CEOs will step out. Founder-CEOs value control over their succession more than non-founders and founder-CEOs want to leave their companies.

On the other hand, Khorana, Jayaraman & Nelling (2000) stated that for the three years it has not affected the stock return however the firm size and age, but firm size and firm age restrain the CEO (founder)'s relationship to organizational performance. A study in India by Jackling and Johl (2010) show that companies led by family CEOs do not add value to firm performance. This leads to sixth hypothesis which stated that:

H6: There is a relationship between CEO family and firm performance.

3.4 Summary of the Chapter

In this chapter theoretical framework have been discussed and it also explains how agency theory and hypothesis formulation has helped in the development of framework.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Introduction

Data collection, the way data was collected; research process, methodology and data analysis is explained in this chapter. Moreover in this chapter model specification and detailed data analysis is discussed through descriptive statistics, following by correlation analysis, and then multiple liner regression.

4.2 Research Design

To achieve the objectives of this study, the regression analysis are used to examine the relationships between board size, board composition, board meeting, board interlock, CEO family and CEO age as independent variables and firm performance (ROA) as dependent variable.

4.2.1 Data Collection

This study has encompasses the non-financial companies listed on Saudi Stock Exchange (Tadawul) (http://www.tadawul.com.sa). Mehran, Morrison and Shapiro (2011) pointed out that there are two main differences governance in the banking sector and non-financial sectors. The first is that banks have many more stakeholders than non-financial firms. The second is that the business of banks is opaque and

complex and can shift rather quickly. The complexity of the financial sectors, particularly the banking sector causes a difficulty of implementing formal regulations (Mehran, Morrison & Shapiro, 2011). Due to the differences in regulations between banks and non-financial firm, this study excludes the financial firms.

The total number of non-financial companies listed on (*Tadawul*) stock exchange is 109 firms from 2010 to 2012. Based on the information available in the end of 2012, the study conducts a sample of 102 firms only due to the availability of information. The data collection and analysis was through the company's annual report submitted on the financial year 2012.

4.2.1.1 Procedures of Data Collection

In order to answer the research questions posed by this study secondary data was collected due to its easy availability. Therefore company's annual reports were analyzed and these annual reports are available on *Tadawul* Stock Exchange's electronic resourced.

The secondary data was obtained from Saudi Arabian stock market's website (Tadawul stock exchange http://www.tadawul.com.sa). Similarly, balance sheets, income statement and cash flows are helpful in providing the data regarding information related to company's performance, board of directors and group of companies owned by the company.

4.2.2 Model Specification and Multiple Regressions

In order to measure the firm performance in one side as dependent variable and board size, board composition, board meeting, board interlock, CEO age and CEO family as independent variable multiple regression is used. This will help in identifying the dependent variable from several independent variables.

The following regression equation is estimated as follow:

$$FIRMPFC = \alpha 0 + \beta 1BSIZE + \beta 2BCOMP + \beta 3BMET + \beta 4BINT + \beta 5CEOAGE + \beta 6CEOFAM + \varepsilon$$

Where:

$\alpha 0$: Constant

FIRMPFC: firm performance

BSIZE: board size

BCOMP: board composition

BMET: board meeting

BINT: board interlock

CEOAGE: CEO age

CEOFAM: Family CEO

ε: Error term

4.2.3 Measurement of the Variables

In this section independent and dependent variables are measured.

4.2.3.1 Dependent Variables

Firm's performance can be gauged through Return on assets (ROA). ROA is income earned before deducting the tax and divided by total assets of the company (Haniffa & Hudaib, 2006).

4.2.3.2 Independent Variables

Board characteristics are measured as independent variable in this part of the research as presented in Table 4.1:

Table 4.1: Operationalised definition of the research variables

Variables	*Acronym*	*Operationalised definition*
Dependent variables:		
Return on assets	ROA	Income after tax divided by total assets of the company.
Independent variables:		
Board size	BSIZE	The total number of directors serving on the board of directors.
Board Composition	BCOMP	It's a ratio how many independent directors are there as compare to total number of directors
Board Meeting	BMET	How many time board member meet in a year (Number of meeting)
Board Interlock	BINT	The percentage of directors who serve on at least three other boards
CEO Age	CEOAGE	The relationship between CEO's age and firm performance
CEO Family	CEOFAM	A model variable that takes 1 if CEO is related to the owner of the firms or any of the board member, 0 if it is other way round.

4.3 Data Analysis

This study has examined corporate governance characteristics on firm performance utilizes analysis of variables followed by the analysis of multiple linear regressions the descriptive statistics of dependent and independent variables and Pearson correlation.

4.4 Summary of the chapter

The present chapter contains the explanation of the methodology used in the research. In addition, it explains the research methodology, the research design and data analysis.

CHAPTER FIVE

RESULTS AND DISSCUSIONS

5.1 Introduction

This chapter delves in-depth to explain the description of data analysis. Descriptive analysis and correlation of variables are discussed, followed by the analysis of multiple linear regressions. A summary of this chapter is presented in the last part of this chapter.

5.2 Descriptive Statistics

Table 5.1 below presents the descriptive analysis for both the dependent and independent variables. First, the discussion is centered towards the dependent variables as seen in Table 5.1. It is realized that the mean for ROA decreased in 2011, but it has started to improve in 2012, signaling the start of market adjustments. As with independent variables, it is noticed that eight is the average board size of Saudi companies, which is still within the required range (3 to 11) of board size in Saudi Arabia, parallel to the mandates of CMA. Lipton and Lorsch (1992) too have advocated that this number of board size is as appropriate in order to achieve board effectiveness.

With regards to board composition, the average percentage of independent directors in the boards for all years is 51%. This signifies that in Saudi boards, the number of independent director is the same as the number of dependent directors. With

reference to board meeting, the average frequency of board meetings in Saudi companies is four, as shown in the result. In line with the findings of Vafeas (1999a) and Carcello et al. (2002), the frequency of board meetings range is four meetings per year.

The results from Table 5.1 show that the average percentage of busy members is almost 20%. This signifies that busy board members in Saudi companies represent 20% from the total of board members. The remaining 80% represent board members who are serving in other companies, but less than three companies at the same period. Regarding to the results of CEO age, from the Table 5.1 we can see that, the average age of CEO are between 63 and 65.

Table 5.1: Descriptive Statistics of Performance Measures and Continuous Independent Variables

	2010-2013 N=306	*2011 N=102*	*2011 N=102*	*2012 N=102*
Performance Measure				
ROA				
Mean.	0.0605	0.0622	0.0553	0.0640
Std. Dev	10.40	8.71	11.84	10.51
Skewness	-1.60	0.24	-2.06	-1.84
Kurtosis	17.19	6.84	17.51	18.40
Independent Variables				
Board Size				
Mean	8.21	8.22	8.21	8.20
Std. Dev.	1.52	1.51	1.53	1.53
Skewness	0.04	0.05	0.03	0.03
Kurtosis	2.72	2.54	2.78	2.83
Board Composition				
Mean.	0.51	0.51	0.50	0.50
Std. Dev.	0.18	0.17	0.19	0.19
Skewness	0.61	0.43	0.78	0.59
Kurtosis	2.73	2.84	2.67	2.70
Board Meeting				
Mean.	4.80	4.62	5.13	4.66
Std. Dev.	1.26	0.91	1.61	1.09
Skewness	1.56	0.59	1.49	0.81
Kurtosis	8.56	4.62	6.83	4.46
Board Interlock				
Mean.	0.20	0.19	0.18	0.22
Std. Dev.	0.19	0.18	0.20	0.20
Skewness	0.79	0.70	0.98	0.66
Kurtosis	2.72	2.62	3.07	2.44
CEO Age				
Mean.	64.32	63.44	64.43	65.09
Std. Dev.	5.99	6.13	5.98	5.81
Skewness	0.08	0.04	0.10	0.14
Kurtosis	2.47	2.35	2.43	2.55

Ishak and Ismail (2012) stated that a CEO whose age is less than 54 is considered as a younger CEO whereas a CEO whose age is more than 55 is considered as an older CEO.

Table 5.2: The average age of CEOs

	n	Mean	S.D.	Min	Quant. 0.25	Mdn	Quant. 0.75	Max
2010	102	63.44	6.13	49	60	63	68	77
2011	102	64.43	5.98	50	61	64	69	78
2012	102	65.09	5.81	51	61	64.5	69	79
2010-2012	306	64.32	5.99	49	60	64	69	79

As can be seen from Table 5.2, the 0.25 quintile of the age are 60, 61, and 61 for 2010, 2011, and 2012 respectively. So, it can be concluded that the majority of the CEOs are old and have age greater than 55 years.

5.3 Correlation Analysis

Table 5.3 summarizes the correlation between independent variables and dependent variable for periods 2010, 2011 and 2012. It shows that board meeting, board interlock, CEO age and CEO family are not correlated to the firm performance (ROA). However, board composition has a significant negative relationship with firm performance (ROA). Meanwhile, the relationship between board size and firm performance is strongly positive.

Furthermore, Table 5.3 also presents the correlations between the independent variables to each other. It displays that there are no significant relationships between independent variables except one relationship between board size and board interlock with positive relationship.

Table 5.3: Correlation Matrix

	ROA	BSIZE	BCOMP	BMET	BINT	CEOAGE	CEOFAM
ROA	1						
BSIZE	0.2071***	1					
BCOMP	0.1255 **	-0.0567	1				
BMET	0.0111	0.025	-0.0499	1			
BINT	0.0439	0.2977***	0.0657	-0.0077	1		
CEOAGE	0.0839	0.0602	-0.0728	0.0516	0.0782	1	
CEOFAM	0.0544	0.0185	-0.0711	-0.0245	-0.0436	0.0355	1

***Significant at 1%, ** Significant at 5%, * Significant at 1%

5.4 Multiple Linear Regression Analysis

In Table 5.3, the results of regression analysis are reported based on the accounting performance – the ROA. It shows the influence of the independent variable (board size, board composition, board meeting, board interlock, CEO age and family CEO) on dependent variable (ROA). It indicates that the R2 for the period of the study is 7.09% while the *R*2 for each of the three years is 5.5%, 8.4% and 14.4% respectively.

It is learned that the variable board size (BSIZE), is significantly ($p < 0.01$) related to firm performance (ROA) in a positive direction. In reality, the board instills the company with diversity in order to secure essential resources and contracts. In addition, the board also draws in affluently, expertise and experience. It is also learned that the variable board composition (BCOM), is significantly ($p < 0.10$) related to firm performance (ROA) in a negative direction. It is clear that the increasing in the percentage of independent directors sitting in the board will decrease ROA. If the board composition increases by 1%, the ROA will decrease by about -7.107868. This result is similar to Kiel and Nicholson (2003).

Referring to the variable CEO family, it is found to be significantly ($p < 0.10$) related to the firm performance (ROA) in the negative direction. This result is similar to (Pérez-González, 2006; Burkart, Shleifer & Panunzi, 2003). Statistically, there is no significant relationship between the other corporate governance mechanisms used in this study; board meeting, board interlock and CEO age on the firm performance (ROA).

Table 5.4: Cross-sectional OLS Regression of ROA on Corporate Governance Characteristics

	All	2010	2011	2012
*R*2	0.0709	0.0553	0.0840	0.1439
F value	2.25 (0.0385)	1.04 (0.4017)	1.02 (0.4172)	1.01 (0.4232)
Variables				
BSIZE (H1)	1.430938 (2.66)***	.585962 (1.02)	1.689783 (1.84)*	2.021441 (1.69)*
BCOMP (H2)	-7.107868 (-1.90)*	-8.465932 (-1.77)*	-7.453812 (-1.10)	-5.026807 (-0.77)
BMET (H3)	.028117 (0.08)	.9755873 (1.10)	.2592471 (0.56)	-1.020283 (-1.38)
BINT (H4)	-.2534315 (-0.08)	.4740461 (0.09)	-3.937816 (-0.75)	1.664815 (0.35)
CEOAGE (H5)	-.1791315 (-1.38)	.0146017 (0.09)	-.1934999 (-0.95)	-.4163808 (-1.53)
CEOFAM (H6)	-1.818111 (-1.67)*	-1.345523 (-0.77)	-2.037929 (-0.98)	-1.76768 (-0.93)

***Significant at 1%, ** Significant at 5%, * Significant at 1%

5.5 Discussions

The results between corporate governance variable (board size, board composition, board meeting, board interlock, CEO age and CEO family) and firm performance variable (ROA) are shown in Table 5.3. The analysis shows that board size has a positive relationship ($p < 0.01$) with firm performance (ROA). The first hypothesis (H1) that hypothesized that there exists a relationship between board size and firm performance (ROA) is supported by the result of this study. Many previous literatures provide significant relationships between the size of board and the performance of the firms. However, few several studies found similar results of this study. In Nigeria, the relationship between board size and firm performance in 20 listed non-financial firms is investigated (Sunday, 2008). He proves a significant positive relationship between board size and firm performance.

The result from Table 5.3 reveals that there is a negative relationship ($p < 0.10$) between board composition and firm performance (ROA). The second hypothesis states that there is a relationship between board composition and firm performance. The study provides a significant relationship between board composition and firm performance which means that the second hypothesis (H2) is supported. This inverse relationship indicates that when the board composition increases, the performance of the firm will decrease and vice versa. This is consistent with previous studies conducted by Haniffa and Hudaib (2006) and Klein (1998), where the relationship between board composition and firm performance in Malaysia and US respectively are examined, and they find that there is a negative association between board composition and firm performance.

As shown in Table 5.3, the relationship between board meeting and ROA is not significant; this result do not support third hypothesis (H3) which stated that there is a relationship between board meeting and firm performance (ROA). This result is in accordance with the studies of Lipton and Lorsch (1992), Jensen (1993) and Vafeas (1999). These authors have claimed that the increasing number of board meetings do not correspond to the presence of strong financial performance.

According to agency theory, increase the frequency of meeting through the year will reflect negatively on the performance of the company. Therefore, it will be as a routine for the members without any effective decisions.

Table 5.3 further illustrates the insignificant relationship of board interlock and firm performance (ROA). In this study, the fourth hypothesis (H4) that hypothesizes that there appear to be a relationship between board interlock and firm performance (ROA) is not supported. The findings of this study reveal no significant relationship between busy directors and firm performance (ROA). Similarly, Ferris et al. (2003) affirmed that there is no corroboration for the statement that busy boards are causing detrimental effects to firm performance.

From this result we can conclude that, board busy could not focus on a particular company and fluctuating attitudes among several companies which reflects negatively on the performance of the company. Moreover, directors who are serving in several companies will reduce their commitment for their companies and that will lead to mix their duties between the companies.

With regards to the age of CEO, Table 5.3 shows insignificant association between the age of CEO and firm performance. The fifth hypothesis (H5) which hypothesizes that the relationship between the age of CEO and firm performance (ROA) exists is not supported.

Referring to agency theory which stated that, the greater the age of the CEO will decline the company's performance. From the results we can conclude that, the majority of the CEOs age in Saudi companies is old, that means less innovation and creativity. In addition, from the Saudi environment the CEOs are likely to stay on their positions as much as they can and that will prevent the diversity of CEOs.

Finally, the result from Table 5.3 displays that, there is a negative relationship between CEO family and firm performance ($p < 0.1$). Based on this result, the sixth hypothesis (H6) which stated that, there is a relationship between CEO family and firm performance (ROA) is supported. The results obtained from this study supported studies by Van Reenen and Bloom (2005) and Pérez-González (2006).

5.6 Summary of the Chapter

The results in this study could not provide a significant relationship between the measure of firm performance and board meeting, board interlock and CEO age. However, the board size has positive relationship with firm performance (ROA). On the other hand, the board composition and CEO family are related to the firm performance (ROA) negatively and significantly.

Table 5.5: Summary of the hypotheses results

Hypothesis	Relationship	Findings
H1	Between board size and ROA	Positive and significant
H2	Between board composition and ROA	Negative and significant
H3	Between board meeting and ROA	No relationship
H4	Between board interlock and ROA	No relationship
H5	Between CEO age and ROA	No relationship
H6	Between CEO family and ROA	Negative and significant

CHAPTER SIX

CONCLUSION AND RECOMMENDATION

6.1 Introduction

This study examines the relationship between board characteristics (board size, board composition, board meeting, board interlock, CEO age and CEO family) and firm performance (ROA) based on the annual reports of listed companies in Saudi Arabia in 2010, 2011 and 2012. The sample of the study is the non-financial firms in the Saudi Market (*Tadawul*). Next section provides the conclusion of the study then the following highlights the contribution of the study, limitation of the study and end by the future research.

6.2 Conclusion

The main purpose of the study is to examine the association between board characteristic (size of the board, composition of the board, board meeting, board interlock, CEO age and CEO family) and how it can affect organizational performance (ROA) in Saudi Arabia. This study excludes the financial sector (banks and other financial sectors) from the sample. With regards to the examination of the impact of board (board size, board composition, board meeting, board interlock, CEO age and CEO family) of the Saudi non-financial firms listed on the Saudi Stock

Exchange (*Tadawul*), on the firm performance (ROA), an analysis of linear regression is utilized.

This study could not provide any significant association between board characteristic (board meeting, board interlock and CEO age) and firm performance (ROA). However, the board size is found positively and significantly to the firm performance (ROA).While board composition and CEO family have a negative association with performance of the firm (ROA).

6.3 Contribution of the Study

This study supports the previous studies that examine the relationship board characteristic and firm performance. In addition, this study enhances the understanding about corporate governance in Gulf countries, which there is a few studies that examine the relationship between corporate governance and firm performance in the Gulf region in general and particularly in Saudi Arabia.

6.4 Limitation of the Study

The result of this study does not present any significant association between board characteristic (board meeting, board interlock and CEO age) and firm performance (ROA). Moreover, the numbers of selected corporate governance mechanisms in this study were only six variables due to lack available information.

6.5 Future Research

It is recommended that future research take into consideration the investigation of relationship between corporate governance before issuing the Code of Corporate Governance in Saudi Arabia and after issuing them in order to investigate the differences during longer period. This will reveals whether there is an improvement in corporate governance practice in Saudi Arabia, and it will investigates the different pre and post effects of corporate governance on the firm performance since the establishment of the corporate governance Codes. A longer period of study is needed to have a better view on the corporate governance in Saudi Arabia. In addition, it is suggested that future studies consider other additional aspects of corporate governance variables.

REFERENCES

Adams, R. B., & Mehran, H. (2005, August). Corporate performance, board structure and its determinants in the banking industry. In *EFA 2005 Moscow meetings*.

Adams, R. B., & Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. *Journal of Financial Economics*, *94*(2), 291-309.

Adams, R., Almeida, H., & Ferreira, D. (2009). Understanding the relationship between founder–CEOs and firm performance. *Journal of Empirical Finance*, *16*(1), 136-150.

Agrawal, A., & Knoeber, C. R. (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. *Journal of Financial and Quantitative Analysis*, *31*(3), 377-397.

Amran, N. A., & Che.Ahmad, A. (2009). Family business, board dynamics and firm value: Evidence from Malaysia. *Journal of Financial Reporting and Accounting*, *7*(1), 53-74.

Anderson, R. C., Mansi, S. A., & Reeb, D. M. (2003). Founding family ownership and the agency cost of debt. *Journal of Financial Economics*, *68*(2), 263-285.

Anderson, R. C., Mansi, S. A., & Reeb, D. M. (2004). Board characteristics, accounting report integrity, and the cost of debt. *Journal of Accounting and Economics*, *37*(3), 315-342.

Ashbaugh-Skaife, H., Collins, D. W., & Kinney Jr, W. R. (2007). The discovery and reporting of internal control deficiencies prior to SOX-mandated audits. *Journal of Accounting and Economics*, *44*(1), 166-192.

Barnes, L. B., & Hershon, S. A. (1994). Transferring power in the family business. *Family Business Review*, *7*(4), 377-392.

Barnhart, S. W., & Rosenstein, S. (1998). Board composition, managerial ownership, and firm performance: An empirical analysis. *Financial Review*, *33*(4), 1-16.

Bathala, C. T., & Rao, R. P. (1995). The determinants of board composition: An agency theory perspective. *Managerial and Decision Economics*, *16*(1), 59-69.

Baysinger, B. D., & Butler, H. N. (1985). Corporate governance and the board of directors: Performance effects of changes in board composition. *Journal of Law, Economics & Organization*, *1*(1), 101-124.

Baysinger, B., & Hoskisson, R. E. (1990). The composition of boards of directors and strategic control: Effects on corporate strategy. *Academy of Management Review*, *15*(1), 72-87.

Beasley, M. S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. *Accounting Review*, 443-465.

Beasley, M., Carcello, J. V., & Hermanson, D. (1999). Fraudulent financial reporting: 1987-1997. *An analysis of US public companies. Committee of Sponsoring Organizations of the Treadway Commission*.

Becht, F., Macro, G., & Patrick, B. (2002). Corporate governance and control. Working Paper No. 9371. *National Bureau of Economic Research, Cambridge, MA*. 1-128

Becker, M. H., Maiman, L. A., Kirscht, J. P., Haefner, D. P., & Drachman, R. H. (1977). The Health Belief Model and prediction of dietary compliance: a field experiment. *Journal of Health and Social Behavior*, *18*(4), 348-366.

Bertrand, M., & Mullainathan, S. (2003). Enjoying the quiet life? Corporate governance and managerial preferences. *Journal of Political Economy*, *111*(5), 1043-1075.

Bhagat, S., & Black, B. (2001). Non-Correlation between Board Independence and Long-Term Firm Performance, *The. J. CorP. l.*, *27*, 231.

Bloom, N., & Van Reenen, J. (2007). Measuring and explaining management practices across firms and countries. *The Quarterly Journal of Economics*, *122*(4), 1351-1408.

Bonn, I., Yoshikawa, T., & Phan, P. H. (2004). Effects of board structure on firm performance: A comparison between Japan and Australia. *Asian Business & Management*, *3*(1), 105-125.

Booth, J. R., & Deli, D. N. (1996). Factors affecting the number of outside directorships held by CEOs. *Journal of Financial Economics*, *40*(1), 81-104.

Brickley, J. A., & James, C. M. (1987). The takeover market, corporate board composition, and ownership structure: The case of banking. *Journal of Law and Economics*, *30*(1), 161-180.

Brickley, J. A., Coles, J. L., & Jarrell, G. (1997). Leadership structure: Separating the CEO and chairman of the board. *Journal of Corporate Finance*, *3*(3), 189-220.

Brickley, J. A., Coles, J. L., & Terry, R. L. (1994). Outside directors and the adoption of poison pills. *Journal of financial Economics*, *35*(3), 371-390.

Brockmann, E. N., & Simmonds, P. G. (1997). Strategic decision making: the influence of CEO experience and use of tacit knowledge. *Journal of Managerial Issues*, 454-467.

Burkart, M., Panunzi, F., & Shleifer, A. (2003). Family firms. *The Journal of Finance*, *58*(5), 2167-2202.

Byrd, J. W., & Hickman, K. A. (1992). Do outside directors monitor managers?: Evidence from tender offer bids. *Journal of Financial Economics*, *32*(2), 195-221.

Cadbury, A. (1992). Family firms and their governance: Creating tomorrow's company from today's. *London: Egon Zehnder International.*

Campbell, J. D., Trapnell, P. D., Heine, S. J., Katz, I. M., Lavallee, L. F., & Lehman, D. R. (1996). Self-concept clarity: Measurement, personality correlates, and cultural boundaries. *Journal of Personality and Social Psychology*, *70*(1), 141.

Carcello, J. V., Hermanson, D. R., Neal, T. L., & Riley, R. A. (2002). Board Characteristics and Audit Fees. *Contemporary Accounting Research*, *19*(3), 365-384.

Carlsson, G., & Karlsson, K. (1970). Age, cohorts and the generation of generations. *American Sociological Review*, 710-718.

Casares Field, L., Lowry, M., & Mkrtchyan, A. (2013). Are busy boards detrimental?. *Journal of Financial Economics, 109*(1), 63-82.

Certo, S. T., Daily, C. M., Cannella, A. A., & Dalton, D. R. (2003). Giving money to get money: How CEO stock options and CEO equity enhance IPO valuations. *Academy of Management Journal*, *46*(5), 643-653.

Chaganti, R. S., Mahajan, V., & Sharma, S. (1985). Corporate board size, composition and corporate failures in retailing industry. *Journal of Management Studies*, *22*(4), 400-417.

Cheng, S., Evans III, J. H., & Nagarajan, N. J. (2008). Board size and firm performance: the moderating effects of the market for corporate control. *Review of Quantitative Finance and Accounting*, *31*(2), 121-145.

Chowdary, NV (ed.).(2003). Corporate governance in emerging markets, 1, Corporate Governance, *ICFAI Press Hyderabad.*

Christiansen, Christopher, (1953). *Management Succession in Small and Growing Enterprises.* Graduate School of Business Administration, Harvard University.

Claessens, S (2003). Corporate Governance and Development. Global Corporate Governance Forum Acces: May 27, 2012, from http://www.ifc.org/ifcext/cgf.nsf/AttachmentsByTitle/Focus_1_CG_and_Development/$FILE /Focus_1_Corp_Governance_and_Development.pdf .

Conger, J. A., Finegold, D., & Lawler, E. E. (1998). Appraising boardroom performance. *Harvard Business Review*, *76*, 136-164.

Conyon, M. J., & Peck, S. I. (1998). Board size and corporate performance: evidence from European countries. *The European Journal of Finance*, *4*(3), 291-304.

Coles, J. W., & Jarrell N. (2001). An examination of the relationship of governance mechanisms to performance. *Journal of Management*, *27*(1), 23-50.

Core, J. E., Holthausen, R. W., & Larcker, D. F. (1999). Corporate governance, chief executive officer compensation, and firm performance. *Journal of Financial Economics*, *51*(3), 371-406.

Daboub, A. J., Rasheed, A. M., Priem, R. L., & Gray, D. (1995). Top management team characteristics and corporate illegal activity. *Academy of Management Review*, *20*(1), 138-170.

Daily, C. M., & Dollinger, M. J. (1992). An empirical examination of ownership structure in family and professionally managed firms. *Family Business Review*, *5*(2), 117-136.

Daily, C. M., Dalton, D. R., & Cannella, A. A. (2003). Corporate governance: Decades of dialogue and data. *Academy of Management Review*, *28*(3), 371-382.

Dallas, L. L. (2001). Developments in U.S. boards of directors and the multiple roles of corporate boards, *Working Paper, University of San Diego*. *76*(5), 1293-1363.

Dalton, C. M., & Dalton, D. R. (2005). Boards of directors: Utilizing empirical evidence in developing practical prescriptions. *British Journal of Management*, *16*(1), 91-97.

Dalton, D. R., Daily, C. M., Ellstrand, A. E., & Johnson, J. L. (1998). Meta-analytic reviews of board composition, leadership structure, and financial performance. *Strategic Management Journal*, *19*(3), 269-290.

Darwish. (2000). Corporate governance and firm performance. Working Paper, *Georgia State University*.

Davidson, W. N., Pilger, T., & Szakmary, A. (1998). Golden parachutes, board and committee composition, and shareholder wealth. *Financial Review*, *33*(4), 17-32.

Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a stewardship

theory of management. *Academy of Management Review*, *22*(1), 20-47.

De Andres, P., Azofra, V., & Lopez, F. (2005). Corporate boards in OECD countries: size, composition, functioning and effectiveness. *Corporate Governance: An International Review*, *13*(2), 197-210.

Dehaene, A., De Vuyst, V., & Ooghe, H. (2001). Corporate performance and board structure in Belgian companies. *Long Range Planning*, *34*(3), 383-398.

Development (OECD). Steering Group on Corporate Governance. (2004). *OECD Principles of Corporate Governance 2004*. OECD Publishing.

Donnelley, R. G. (1988). The family business. *Family Business Review*, *1*(4), 427-445.

Eisenberg, T., Sundgren, S., & Wells, M. T. (1998). Larger board size and decreasing firm value in small firms. *Journal of Financial Economics*, *48*(1), 35-54.

Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review*, *14*(1), 57-74.

Erickson, J., Park, Y. W., Reising, J., & Shin, H. H. (2005). Board composition and firm value under concentrated ownership: the Canadian evidence. *Pacific-Basin Finance Journal*, *13*(4), 387-410.

Ertugrul, M., & Hegde, S. (2004). Corporate Governance Scores and Firm Performance. *Available at SSRN 686001*.

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of law and economics*, *26*(2), 301-325.

Ferris, S. P., Jagannathan, M., & Pritchard, A. C. (2003). Too busy to mind the business? Monitoring by directors with multiple board appointments. *The Journal of Finance*, *58*(3), 1087-111

Fich, E. M., & Shivdasani, A. (2006). Are busy boards effective monitors?. *The Journal of Finance*, *61*(2), 689-724.

Firth, M., Fung, P. M., & Rui, O. M. (2006). Corporate performance and CEO compensation in China. *Journal of Corporate Finance*, *12*(4), 693-714.

Forbes, D. P., & Milliken, F. J. (1999). Cognition and corporate governance: Understanding boards of directors as strategic decision-making groups. *Academy of Management Review*, *24*(3), 489-505.

Fosberg, R. H. (1989). Outside directors and managerial monitoring. *Akron Business and Economic Review*, *20*(2), 24-32.

Froot, K. A., Scharfstein, D. S., & Stein, J. C. (1992). Herd on the street: Informational inefficiencies in a market with short-term speculation. *The Journal of Finance*, *47*(4), 1461-1484.

Gallo, M. (2005). Independent board directors: How to improve their contribution to the family business. *IESE Business School Discussion Paper*, *38*(5) 589-603.

Gedajlovic, E., Lubatkin, M. H., & Schulze, W. S. (2004). Crossing the threshold from founder management to professional management: A governance perspective. *Journal of Management Studies*, *41*(5), 899-912.

Gedajlovic, E., & Carney, M. (2010). Markets, hierarchies, and families: Toward a transaction cost theory of the family firm. *Entrepreneurship Theory and Practice, 34*(3): 1145–1172.

Gilson, S. C. (1990). Bankruptcy, boards, banks, and blockholders: Evidence on changes in corporate ownership and control when firms default. *Journal of Financial Economics*, *27*(2), 355-387.

Gladstein, D. L. (1984). Groups in context: A model of task group effectiveness. *Administrative Science Quarterly*, 499-517.

Godard, L. (2002). La taille du conseil d'administration: déterminants et impact sur la performance. *Revue Sciences de gestion*, *33*, 125-148.

Godard, L., & Schatt, A. (2005). Caractéristiques et fonctionnement des conseils d'administration français. *Revue française de gestion*, 5, 69-87.

Goodstein, J., Gautam, K., & Boeker, W. (1994). The effects of board size and diversity on strategic change. *Strategic Management Journal*, *15*(3), 241-250.

Gregory, H. J. (2000). The globalization of corporate governance. *Global Counsel*, *5*, 52-65.

Guest, P. M. (2009). The impact of board size on firm performance: evidence from the UK. *The European Journal of Finance*, *15*(4), 385-404.

Guthrie, J. P., & Olian, J. D. (1991). Does context affect staffing decisions? The case of general managers. *Personnel Psychology, 44*(2), 263-292.

Haleblian, J., & Finkelstein, S. (1993). Top management team size, CEO dominance, and firm performance: The moderating roles of environmental turbulence and discretion. *Academy of Management Journal, 36*(4), 844-863.

Haniffa, R., & Hudaib, M. (2006). Corporate governance structure and performance of Malaysian listed companies. *Journal of Business Finance &*

Accounting, *33*(7-8), 1034-1062.

Harris, I. C., & Shimizu, K. (2004). Too busy to serve? An examination of the influence of overboarded directors. *Journal of Management Studies*, *41*(5), 775-798.

Hasnah, K. (2009). *The impact of corporate governance and board performance on the performance of public listed companies in Malaysia* (Doctoral dissertation, Ph. D Dissertation, University Sains Malaysia).

Haunschild, P. R., & Beckman, C. M. (1998). When do interlocks matter?: Alternate sources of information and interlock influence. *Administrative Science Quarterly*, 815-844.

Hermalin, B. E., & Weisbach, M. S. (2001). *Boards of directors as an endogenously determined institution: A survey of the economic literature* (No. w8161). National Bureau of Economic Research.

Holmström, B. (1999). Managerial incentive problems: A dynamic perspective. *The Review of Economic Studies*, *66*(1), 169-182.

Hutchinson, M. (2002). An analysis of the association between firms' investment opportunities, board composition and firm performance. *Asia-Pacific Journal of Accounting & Economics*, *9*(1), 17-38.

Ihsan, S. M. (2012). Corporate governance in the Kingdom Saudi Arabia.. *Finance and Administrative Sciences*, *6*(2), 16-28.

Ishak, R., Ismail, K. N. I. K., & Abdullah, S. N. (2012). Corporate performance, CEO power and CEO turnover: Evidence from Malaysian Public Listed Companies. *Jurnal Pengurusan*, *3*(5), 33-41.

Iskander, M., & Chamlou, N. (2000). Corporate governance. *Academy of Management Journal, 98*(3), 844-863

Jackling, B., & Johl, S. (2010). Board structure and firm performance: Evidence from India's top companies. *Corporate Governance: An International Review*, *17*(4), 492-509.

Jacobs, S. L. (1985). A well chosen outside board gives owners peace of mind. *Wall Street Journal*, 25.

Jayaraman, N., Khorana, A., Nelling, E., & Covin, J. (2000). Research notes and commentaries CEO founder status and firm financial performance. *Strategic Management Journal*, *12*(24), 1215-1224.

Jensen, M. C. (1993). The modern industrial revolution, exit, and the failure of internal control systems. *The Journal of Finance*, *48*(3), 831-880.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*(4), 305-360.

Jiang, Y., & Peng, M. W. (2011). Principal-principal conflicts during crisis. *Asia Pacific Journal of Management*, *28*(4), 683-695.

Jiraporn, P., Davidson, W. N., DaDalt, P., & Ning, Y. (2009). Too busy to show up? An analysis of directors' absences. *The Quarterly Review of Economics and Finance*, *49*(3), 1159-1171.

Kajola, S. O. (2008). Corporate governance and firm performance: The case of Nigerian listed firms. *European Journal of Economics, Finance and Administrative Sciences*, *14*, 16-28.

Kandel, E., & Lazear, E. P. (1992). Peer pressure and partnerships. *Journal of Political Economy*, *100*(4), 801-817.

Kaplan, S. N., & Reishus, D. (1990). Outside directorships and corporate performance. *Journal of Financial Economics*, *27*(2), 389-410.

Karamanou, I., & Vafeas, N. (2005). The association between corporate boards, audit committees, and management earnings forecasts: An empirical analysis.*Journal of Accounting Research*, *43*(3), 453-486.

Khan, A., & Awan, S. H. (2012). Effect of board composition on firm's performance: A case of Pakistani listed companies. *Interdisciplinary Journal of Contemporary Research in Business*, *3*(10), 853-863.

Khanchel El Mehdi, I. (2007). Empirical evidence on corporate governance and corporate performance in Tunisia. *Corporate Governance: An International Review*, *15*(6), 1429-1441.

Khatri, Y., Leruth, L., & Piesse, J. (2002). *Corporate performance and governance in Malaysia* (No. 2002-2152). International Monetary Fund.

Kiel, G. C., & Nicholson, G. J. (2003). Board composition and corporate performance: how the Australian experience informs contrasting theories of corporate governance. *Corporate Governance: An International Review*, *11*(3), 189-205.

Kien, P., Suchard, J., & Jason, Z. (2004). Corporate governance cost of capital and performance: Evidence from Australian Firms. *Journal of Finance*, 6, 1-28.

Klein, A. (1998). Firm performance and board committee structure 1. *The Journal of Law and Economics*, *41*(1), 275-304.

Kosnik, R. (1987). Corporate governance; Directors-of-corporations. *Administrative Science Quarterly Journal, 3*(1), 163-185.

Krivogorsky, V. (2006). Ownership, board structure, and performance in continental Europe. *The International Journal of Accounting*, *41*(2), 176-197.

Kuratko, D. F., & Morris, M. H. (2003). Corporate entrepreneurship: The dynamic strategy for 21st century organizations. *Advances in the Study of Entrepreneurship, Innovation & Economic Growth*, *14*, 21-46.

Kyereboah-Coleman, A., & Biekpe, N. (2006). The link between corporate governance and performance of the non-traditional export sector: evidence from Ghana. *Corporate Governance: The International Journal of Effective Board Performance*, *6*(5), 609-623.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (2000). Investor protection and corporate governance. *Journal of Financial Economics*, *58*(1), 3-27.

Lansberg, I. S. (1983). Managing human resources in family firms: The problem of institutional overlap. *Organizational Dynamics*, *12*(1), 39-46.

Lasfer, M. A. (2004). On the monitoring role of the board of directors: The case of the adoption of Cadbury recommendations in the UK. *Advances in Financial Economics*, *9*, 287-326.

Lawler III, E. E., Finegold, D. L., Benson, G. S., & Conger, J. A. (2002). Corporate boards: keys to effectiveness. *Organizational Dynamics*, *30*(4), 310-324.

Le Breton-Miller, I. (2005). Managing for the long run: Lessons in competitive advantage from great family businesses. Harvard Business Press, *Journal of Economic Literature*, *43*(4), 1219-1247

Lee, S., & Bozeman, B. (2005). The impact of research collaboration on scientific productivity. *Social Studies of Science*, *35*(5), 673-702.

Lefort, F., & Urzúa, F. (2008). Board independence, firm performance and ownership concentration: Evidence from Chile. *Journal of Business Research*, *61*(6), 615-622.

Levinson, H. (1971). Conflicts that plague family businesses. *Harvard Business Review*, *49*(2), 90-98.

Limpaphayom, J., & Connelly, P. (2006). Board characteristics and firm performance: Evidence from the life insurance industry in Thailand Chulalongkorn. *Journal of Economics*, *16*(2), 101-124.

Lipton, M., & Lorsch, J. W. (1992). A modest proposal for improved corporate governance. *The Business Lawyer*, 59-77.

Li, X., Low, A., & Makhija, A. K. (2011). Career concerns and the busy Life of the young CEO, *2*(4).

Loderer, C., & Peyer, U. (2002). Board overlap, seat accumulation and share prices. *European Financial Management*, *8*(2), 165-192.

Love, I., & Klapper, L. F. (2002). Corporate governance, investor protection, and performance in emerging markets. *Research Working papers*, *1*(1), 1-39.

Low, C. K. (2002). Corporate Governance: An Asia pacific critique. *Journal of Economic Literature*, *38*(4), 1131-1157

Mace, M. L. (1986). *Directors: Myth and reality*. Cambridge MA: Division of Research, Graduate School of Business Administration, Harvard University.

Mak, Y. T., & Kusnadi, Y. (2005). Size really matters: Further evidence on the negative relationship between board size and firm value. *Pacific-Basin Finance Journal*, *13*(3), 301-318.

Mak, Y. T., & Li, Y. (2001). Determinants of corporate ownership and board structure: evidence from Singapore. *Journal of Corporate Finance*, *7*(3), 235-256.

Mak, Y. T., & Yuanto, K. (2003). Board size really matters: further evidence on the negative relationship between board size and firm value'. *Pulses by Singapore Stock Exchange*.

Mallin, C. (2007). Institutional shareholders: Their role in the shaping of corporate governance. *International Journal of Corporate Governance*, *1*(1), 97-105.

Mathiesen, H. (2002). Managerial ownership and financial performance. PhD dissertation, series 18.2002, Copenhagen Business School, Denmark, viewed.

Mehran, H., Morrison, A., & Shapiro, J. (2011). Corporate governance and banks: What have we learned from the financial crisis?. *FRB of New York Staff Report*, (502).

Miller, A., Boehlje, M., & Dobbins, C. (2001). Key financial performance measures for farm general managers. West Lafayette, IN: Purdue University Cooperative

Extension Service Publication.

Millstein, I. M., & MacAvoy, P. W. (1998). Active board of directors and performance of the large publicly traded corporation, *Columbia Law Review*, *98*(5), 1283-1322.

Morck, R. K., Stangeland, D. A., & Yeung, B. (1998). *Inherited wealth, corporate control and economic growth: The Canadian disease* (No. w6814). National Bureau of Economic Research.

Muth, M., & Donaldson, L. (1998). Stewardship theory and board structure: a contingency approach. *Corporate Governance: An International Review*, *6*(1), 5-28.

Non, M. C., & Franses, P. H. (2007). *Interlocking boards and firm performance: evidence from a new panel database* (No. TI 07-034/2). Tinbergen Institute.

Ntim, C. G. (2011). Internal corporate governance and firm financial performance: evidence from South African listed firms. *Unpublished doctoral thesis, University of Glasgow*,

O'Connell, V., & Cramer, N. (2010). The relationship between firm performance and board characteristics in Ireland. *European Management Journal*, *28*(5), 387-399.

OECD 2004, OECD Principles of Corporate Governance, Organization for Economic Co-operation and Development.

O'Reilly, Charles A., David F. Caldwell, and William P. Barnett. 1989. Work group demography, social integration, and turnover. *Administrative Science Quarterly, 34*,21-3.

O'Sullivan, N. (2000). The impact of board composition and ownership on audit quality: Evidence from large UK companies. *The British Accounting Review*, *32*(4), 397-414.

Ogbechie, C., Koufopoulos, D. N., & Argyropoulou, M. (2009). Board characteristics and involvement in strategic decision making: The Nigerian perspective. *Management Research News*, *32*(2), 169-184.

O'Reilly III, C. A., Caldwell, D. F., & Barnett, W. P. (1989). Work group demography, social integration, and turnover. *Administrative Science Quarterly*, *34*(1), 21-37.

Othman, O. (2003). Board of directors and financial performance of the Malaysian block holding companies. *DBA thesis, Universiti Sains Malaysia, Penang*.

Park, Y. W., & Shin, H. H. (2003). Board composition and earnings management in Canada. *Journal of Corporate Finance*, *10*(3), 431-457.

Parker, B. (2005). Board of directors as an endogenously determined institution: A survey of the economic literature. Center for responsible business, *Working Paper Series,* Paper 3.

Pérez-González, F. (2006). Inherited control and firm performance. *The American Economic Review*, *96*(5), 1559-1588.

Pfeffer, J. (1972). Size and composition of corporate boards of directors: The organization and its environment. *Administrative Science Quarterly*, *17*(2), 218-228.

Prendergast, C., & Stole, L. (1996). Impetuous youngsters and jaded old-timers: Acquiring a reputation for learning. *Journal of Political Economy*, *104*(6), 1105-1134.

Prevost, A. K., Rao, R. P., & Hossain, M. (2002). Board composition in New Zealand: An agency perspective. *Journal of Business Finance & Accounting*, *29*(5&6), 731-760.

Prinz, E. (2006). *Corporate governance and the uncertain role of interlocking directorates: director networks in Germany and their impact on financial performance* (No. 1061001). Université de Bourgogne-Leg (laboratoire d'économie et de gestion)/Fargo (Research center in Finance, organizational ARchitecture and GOvernance).

Provan, K. G. (1980). Board power and organizational effectiveness among human service agencies. *Academy of Management Journal*, *23*(2), 221-236.

Raheja, C. G. (2005). Determinants of board size and composition: A theory of corporate boards. *Journal of Financial and Quantitative Analysis*, *40*(2), 283-306.

Ramdani, D., & Witteloostuijn, A. V. (2010). The impact of board independence and CEO duality on firm performance: A quantile regression analysis for Indonesia, Malaysia, South Korea and Thailand. *British Journal of Management*, *21*(3), 607-627.

Rechner, P. L., & Dalton, D. R. (1991). CEO duality and organizational performance: A longitudinal analysis. *Strategic Management Journal*, *12*(2), 155-160.

Rhoades, D. L., Rechner, P. L., & Sundaramurthy, C. (2000). Board composition and financial performance: A meta-analysis of the influence of outside directors. *Journal of Managerial Issues*, *7*(3), 76-91.

Rhoades, D. L., Rechner, P. L., & Sundaramurthy, C. (2001). A meta-analysis of board leadership structure and financial performance: are “two heads better than one”?. *Corporate Governance: An International Review*, *9*(4), 311-319.

Rice, H., & Alabama, A. (2006). What price greed: An analysis of corporate abuse and mismanagement by fiduciaries. *Global Conference oil Business & Economics*, 3, 1-13.

Roberts, J., McNulty, T., & Stiles, P. (2005). Beyond agency conceptions of the work of the non-executive director: Creating Accountability in the boardroom. *British Journal of Management*, *16*(1), 5-26

Shah, S. Z. A., Butt, S. A., & Saeed, M. M. (2011). Ownership structure and performance of firms: Empirical evidence from an emerging market. *African Journal of Business Management*, *5*(2), 515-523.

Shakir, R. (2008). Board size, executive directors and property firm performance in Malaysia. *Pacific Rim Property Research Journal*, *14*(1), 66-68.

Shivdasani, A., & Yermack, D. (1999). CEO involvement in the selection of new board members: An empirical analysis. *The Journal of Finance*, *54*(5), 1829-1853.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *The Journal of Finance*, *52*(2), 737-783.

Singh, H., & Harianto, F. (1989). Management-board relationships, takeover risk, and the adoption of golden parachutes. *Academy of Management Journal*, *32*(1), 7-24.

Singh, M., & Davidson III, W. N. (2003). Agency costs, ownership structure and corporate governance mechanisms. *Journal of Banking & Finance*, *27*(5), 793-816.

Smith, B. F., & Amoako-Adu, B. (1999). Management succession and financial performance of family controlled firms. *Journal of Corporate Finance*, *5*(4), 341-368.

Spanos, L. J. (2005). Corporate governance in Greece: developments and policy implications. *Corporate Governance*, *5*(1), 15-30.

Sulong, Z., & Nor, F. M. (2010). Corporate governance mechanisms and firm valuation in malaysian listed firms: A Panel Data Analysis. *Journal of Modern Accounting and Auditing, 6*(1), 1-18

Sunday, K.O. (2008), "Corporate governance and firm performance: The case of Nigerian listed firms", European Journal of Economics, *Finance and Administrative Sciences, 14*, 16-28.

Topak, M. S. (2011). The effect of board size on firm performance: Evidence from Turkey. *Middle Eastern Finance and Economics*, *14*, 119-127.

Uma, S. (2003). Research Methods for Business: A skill building approach. *John Wiley and Sons Inc., New York*.

Uzun, H., Szewczyk, S. H., & Varma, R. (2004). Board composition and corporate fraud. *Financial Analysts Journal*, 33-43.

Vafeas, N. (1999). Board meeting frequency and firm performance. *Journal of Financial Economics*, *53*(1), 113-142.

Van Ees, H., Postma, T. J., & Sterken, E. (2003). Board characteristics and corporate performance in the Netherlands. *Eastern Economic Journal*, *29*(1), 41-58.

Villalonga, B., & Amit, R. (2006). How do family ownership, control and management affect firm value?. *Journal of Financial Economics*, *80*(2), 385-417.

Vinten, G. (1998). Corporate governance: an international state of the art. *Managerial Auditing Journal*, *13*(7), 419-431.

Weir, C., Laing, D., & McKnight, P. J. (2002). Internal and external governance mechanisms: their impact on the performance of large UK public companies. *Journal of Business Finance & Accounting*, *29*(5&6), 579-611.

Weisbach, M. S. (1988). Outside directors and CEO turnover. *Journal of Financial Economics*, *20*, 431-460.

Yasser, Q. R., Entebang, H., & Mansor, S. A. (2011). Corporate governance and firm performance in Pakistan: The case of Karachi Stock Exchange (KSE)-30. *Journal of Economics and International Finance*, *3*(8), 482-491.

Yermack, D. (1996). Higher market valuation of companies with a small board of directors. *Journal of Financial Economics*, *40*(2), 185-211.

Yim, S. (2010). The acquisitiveness of youth: CEO age and acquisition behavior. *Journal of Financial Economics*.

Zahra, S. A., & Pearce II, J. A. (1990). Determinants of board directors' strategic involvement. *European Management Journal*, *8*(2), 164-173.

Zahra, S. A., & Pearce, J. A. (1989). Boards of directors and corporate financial

performance: A review and integrative model. *Journal of Management*, *15*(2), 291-334.

Zahra, S. A., & Stanton, W. W. (1988). The implications of board of directors composition for corporate strategy and performance. *International Journal of Management*, *5*(2), 229-236.