THE INFLUENCE OF OWNERSHIP STRUCTURES AND BOARD CHARACTERISTICS TOWARDS FIRM PERFORMANCE: EVIDENCE FROM LISTED COMPANIES IN DUBAI.

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(International Accounting)

DECLARATION

I declare that the substance of this project paper has never been submitted for any degree or postgraduate program and qualifications.

I certify that all the support and assistance received in preparing this project paper and the entire source abstracted have been acknowledged in this stated project paper.

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ABSTRACT

Corporate governance has received much attention globally, especially after numerous accounting scandals and failures that involve large companies throughout the world. Numbers of previous studies have been conducted in examining the association of corporate governance with firm performance. This study examines the role of board of directors and ownership structures towards firm performance in Dubai. This study is being tested on 79 listed companies in Dubai for year 2014.

The results of this study show that independent directors and foreign ownership structure influence the firm performance as measured by ROA and ROE. In addition, the results show that firm size is positively significant to firm performance either ROA or ROE. However, there are no significant relationship between board size and firm performance. Similarly, GCC and Arab ownership structures, which are insignificant in this relationship.

KEY WORDS: Firm Size, Firm Composition, Ownership Structure, ROE, ROA.

ABSTRAK

Urustadbir syarikat telah mendapat perhatian di seluruh dunia terutamanya selepas kegagalan dan skandal perakaunan yang melibatkan banyak syarikat-syarikat besar di seluruh dunia. Banyak kajian telah dilakukan bagi menilai hubungan di antara urustadbir syarikat dan prestasi syarikat. Kajian ini memeriksa peranan pengarah-pengarah syarikat dan struktur pemilikan terhadap prestasi syarikat di Dubai. Kajian ini dilakukan terhadap 79 syarikat yang disenaraikan di Bursa Dubai bagi tahun 2014.

Hasil kajian menunjukkan, pengarah bebas dan pemilikan saham asing mempengaruhi prestasi syarikat apabila diukur menggunakan ROA dan ROE. Tambahan, saiz syarikat menunjukkan keputusan signifikan terhadap prestasi syarikat samada melalui ROA atau ROE. Walaubagaimanapun, tidak ada hubungan yang signifikan di antara saiz lembaga pengarah dengan prestasi syarikat. Begitu juga, struktur pemilikan bagi GCC dan Arab, yang mana hubungannya adalah tidak signifikan.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Due to the precarious and unpredictable business environment, the regulating and governing of both the internal and external factors that are affecting firms' performance become rather challenging (Bettis & Hitt, 1995; Kuratko & Morris, 2003). Parallel to globalization and the ever increasing firm growth, the need of business governance to enhance firm performance is recognized globally (Haniffa & Hudaib, 2006). These modifications attract investors who have already lost market trust to wisely make investment decision (Sunday, 2008). When a firm's corporate governance (CG) strategy pertaining to its performance is mediocre, its market and business are likely to fail (Chen, 2008). Latest financial crises have recalled their attention to business governance and it is acknowledged that companies possessing better corporate governance structures signs better performance (Chiang, 2005).

To attain financial supports from stakeholders, global businesses need to develop and evolve (Mak & Kusnadi, 2005). Before involving in a given business, investors need to be assured that the financial stability and security are secured and that the business is profitable in the long term (Mallin, 2007). However, if the firm is not in a favorable position, the investor too will not be interested. Likewise, if a business fails to attain the sufficient amount of capital needed for its business to prosper, the business will be negatively affected and as a result, the whole economy is general is also affected (Chen, Elder & Hsieh, 2007; Haniffa & Hudaib, 2006; Klapper & Love, 2004; Sunday, 2008).

In line with the high-profile breakdowns of large businesses in the last two decades, CG gained importance in the sense that it is used to tackle accounting fraud (Ihsan, 2012; Musa, 2009). In multinational firms, leaders assess the firm's goal in order to maximize investor wealth. For instances, a decision to enlarge the size of its workforce may be motivated by a leader's desire to obtain more compensation rather than to improve the value of the company (Ghazali, 2010). These personal struggles are eliminated if proper and clear corporate governance is set up (Madura, 2010).

In fact, CG has gained significant interests in contemporary researches across the globe, mainly after several failures and scandals involving world major firms (Adelphia, 2002; Commerce Bank, 1991; Enron, 2001; World Com, 2002). Transparency and accountability are required to encourage capital funds for stockholders and financial security (Driffield, Mahambare, & Pal, 2007; La Rocca, 2007). As the business atmosphere becomes increasing risky, businesses have to compete to gain competitive advantages.

1.2 Background of the Study

To enhance firm's performance, the need for CG extends globally (Judge et al., 2003). To make investment decision, the attention of possible investors needs to involve some changes in order to regain the confidence that has lost due to market instability (Berg & Nenova, 2004). According to Young, Tsai and Hsieh (2008), if a firm's CG strategy that relates to its performance is inferior, the firm would possibly lose a large proportion of its market share. Due to the financial crises, firms that portray better signs of CG structures and performance are being recognized (Chiang, 2005).

Therefore there is a need to recognize the role of CG in order to better understand the actual matters surrounding the discussion of CG (Madura, 2010). CG is a system that not only enhances the relationship between various parties (firm's shareholders and leaders, managers and investors), but it also ensures that proper provision of resources among competitive users exists. Additionally, it offers structures through which firm objectives are formulated and ways to achieve the objectives as well as examining if performances are achieved (Doupnik & Perera, 2009).

The Cadbury Committee (1992) defines CG as a system that not only guides the directions of a firm, but it also serves to govern the management of a firm. In addition, CG stresses on the ways to develop and achieve a firm's objectives in addition to risk management (Sharar, 2006). Besides that, CG also highlights on the means to enhance a firm's performance (Sharar, 2006). It notes the importance of maximizing investor value legally while ensuring fair investment exists among investors who are the customers of a firm. It stresses ethically on the management of labors, vendor partners, employees, investors and the management of the community.

The rapid development of the business environment in UAE and the policies that aim at attracting foreign investments to the country posed as a challenge for UAE listed firms (Belkhir, 2004). Regardless, firms have to be ready to deal with these encounters in a way that will ensure improvement in its commercial performance (Aljifri & Moustafa, 2007). According to Al-Khouri (2006), the commercial performance of any firm is shaped by the board of directors. Hypothetically, board of director plays essential roles in influencing a firm's commercial performance (Coles,

Mcilliams & Sen, 2001; Fama & Jensen, 1983; Weir, Laing & McKnight, 2002). It is thus vital for UAE firms to benefit from the worldwide financial crisis that had impacted many countries around the world (Aljifri & Moustafa, 2007). The UAE nonetheless could not avoid the crisis in the latter period of 2008 and 2009, as evidenced by a 2% contraction in its 2009 GDP which stood at AED 914.3 billion (USD248.9 billion) (KAMCO Research and UAE Economic Brief and Outlook, 2011).

Previous researches examine the effects of the external and internal mechanism of CG on decisions regarding structure of the corporate capital (Al-Najjar & Hussainey, 2009a, 2009b; Crutchley, Jense, Jahera, & Raymond, 1999; Driffield et al., 2007; Du & Dai, 2005; Gul, 1999; La Rocca, 2007; Wen, Rwegasira, & Bilderbeek, 2002). As per the exhaustive literatures, none of the research has investigated the effect of CG on decisions of capital construction in the Middle Eastern countries and United Arab of Emirate (UAE). This present research is particularly relevant to the UAE business context. It is supposed that there are several other countries, particularly the developing countries in the Middle Eastern and other GCC countries share the same political, economic and social environment. The findings of this present research thus are applicable and beneficial to such countries. Moreover, the findings of this research can also be used by those who are responsible in developing the policy, especially in the developing countries where the socio-economic factors are similar to the Arab countries.

1.3 Problem Statement

CG has been regulated in the UAE for a number of years by the UAE Securities and Commodities Authority (SCA) through Decision No. R/32 of 2007 on corporate governance (the old code).

However, in October 2009 the UAE minister of economy issued Ministerial Resolution No. 518 of 2009 concerning Governance Rules and corporate discipline standards (the new code) which replaced the old code.

The new code refines, clarifies, and updates the old code taking into account international standards and local law and circumstances. The new code is mandatory (i.e. there is no voluntary opt out) and must be complied whit by most listed companies by no later than 30 April 2010.

The universal crises in 2008 and the subsequent crises that affect Dubai and the whole UAE which affect some of the biggest companies (Omran, Bolbol & Fatheldin, 2008) highlight the importance of CG among the bigger companies in Dubai.

In many underdeveloped and developing countries, the majority of businesses are under the control of controlling stockholders and family ownerships controls (Al-Saidi, 2013). Majority of businesses are governed and regulated by the state for historical reasons, particularly in the above stated regions (Saidi, 2011; Union of Arab Banks, 2012).

Ownership structure has a significant role in CG studies. Earlier studies have shed light on how firm's performance and ownership structure are interrelated. According to Shleifer and Vishny (1998), the ownership determines the performance of firms. In addition, ownership of state could also facilitate the resolution on the of ambiguous

property right (Jefferson, 1998; Stiglitz, 1999; Sun, Tong, & Tong, 2002). Similarly, Lin, Fang, and Zhou (1998) assert that the problem between the principal and the agent is a major reason of reduced state ownership.

However, in adhering to the agency theory, it is discovered that high structures may lead major investors to prioritize their own interest and these agency problems predominantly occur between managers (Jensen & Meckling, 1976). In order to minimalize agency problems, investors have to endure agency costs. Likewise, managerial ownership not only protects both the interest of managers and owners, it also increases the value of the firm (Jensen & Meckling, 1976). Significant managerial ownerships can align manager's interest with those of the outside investors so that manager can have strong encouragement to pursue value-maximizing behaviors; this is a sign of alignment effects.

Ownership structure is categorized according to concentrated ownership and dispersed ownership. In case of discrete ownership, as can be seen in most US and UK listed companies, conflict of interests occurs between managers and investors (Jensen & Meckling, 1976). While in the case of focused or concentrated ownership which can be seen in many developing and under developed countries, giant investors possess a huge percentage of a firm's share and thus they are entitled with voting privileges. This consequently causes issues in between the larger and smaller investors which is also known as agency problem. To control agency problem, there exists a crucial need to investigate the various kind of ownership structure. Identifying the dominating party in the conflict of interests thus provides the resolution for agency problems.

The last decades have witnessed a noticeable growth in empirical research of multi-disciplinary nature, particularly those that emphasize on how alternative CG

mechanisms are affecting performance of the firms. In the existing body of literature in the field of finance and accounting, the issue of CG has received much attention and it has also been regarded as an indicator of a firm's performance (Brown & Caylor, 2004; Chen et al., 2007; Haniffa & Hudaib, 2006; Judge et al., 2003; Khatri et al., 2002; Klapper & Love, 2004; Rhoades, Rechner, & Sundaramurthy, 2001; Sunday, 2008). These studies revealed that firms operating with a vigorous mechanism of CG are better than firms operating with a weaker mechanism of CG. In the case of perfect markets, it is essential for firms to operate in a manner that ensures that their investors' needs are taken care of.

However, the case is different in the emerging and developing markets that are incomplete and imperfect. The system of CG offers a suitable point to initiate a policy development that is focused on efficient market building (Ihsan, 2012; Musa, 2009). The UAE, as is the case of several developing countries that attempt to converge to the world economy, has recently begun to implement the international CG standards (Aljifri & Moustafa, 2007). The principal aim of this research is to assess the relationship between a selection of external and internal CG mechanisms with the performance of Dubai firms.

No doubt that there is an essential form of research in the CG literatures that link the structure of ownership and the characteristics of board with the performance of firms (McConnell & Servaes, 1990; Morck, Shleifer, & Vishny, 1988). Whilst most studies have focused on firms with typically diffused ownership structures in countries such as the US and UK which have already developed and progressed (Baysinger & Butler, 1985; Rechner & Dalton, 1991), very few have actually studied the role of the mechanism of CG in developing countries (Atiqa & Syed, 2013). Due to the differences in economic, political, cultural and institutional landscapes, the

applicability of CG frameworks originated from developed countries may not be apposite in developing countries (Bushman & Smith, 2001). These changes include fragile markets for corporate control and more focused equity ownership structure.

There exists a significant research gap pertaining to the relationship between firm performance and CG in Dubai. In comparison with the increasing stock market and firms, CG practices are still new and underdeveloped in Dubai (Al-Yafi, 2010; Sharar, 2006). The clarity of revelation practices is inadequate and the structures of power are influenced by directors and other key management contacts (Aljifri & Moustafa, 2007; Baydoun, Maguire, Ryan, & Willett, 2012). These types of problems affect the overall instability of the country. Besides weakening investors' confidence, weak regulatory environment acts as a barrier to attract foreign investments which typically leads to poor economic developments (Ihsan, 2012; Musa, 2009).

In order to determine the impacts that the board and ownership structure have on firm performance and the impacts of the size of board and ownership on the firm performance, this study examines the linkages between ownership structures, board characteristics and firm's performance in Dubai listed firms.

Yet, there exists a need for further research with larger sample size and the use of more prominent technique of analysis to examine if firm's performance is affected by other factors besides board of directions, ownership and board size (Mir & Nishat, 2004; Rehman & Shah, 2013). The overarching objective of this study investigates the present issue in Dubai. This study focuses on accounting based performance methods and the findings obtained from this study contribute and supplements existing literatures.

However, the empirical finding of the current studies on ownership modification and firm's performance remain unclear. Also, studying firm's performance in an open market such as Dubai contributes to the body of knowledge due to its exclusive business environment.

1.4 Research Questions

In this study, the effects of CG mechanisms on firms' performance in Dubai are examined. The research questions of this study are presented as follows:

1. What is the relationship between ownership structures and firm performance in Dubai listed companies?
2. What is the relationship between board composition and firm performance in Dubai listed firms?
3. What is the relationship between board size and firm performance in Dubai listed firms?

1.5 Research Objectives

Using CG mechanisms (board composition, board size, ownership structures), this study investigates the impact of CG mechanisms on firms' performance in Dubai based on the two measurements of firm's performance, namely the return on assets (ROA) and return on equity (ROE). Particularly, this study aims to investigate the following objectives:

1. To investigate the relationship between ownership structures and firm performance of companies listed in Dubai.
2. To investigate the relationship between board composition and firm performance of companies listed in Dubai.

3. To investigate the relationship between board size and firm performance of companies listed in Dubai.

1.6 Significance of Study

This study is significant in several aspects. First and foremost, this study promotes better understanding on the subject of CG based on the background of Dubai listed firms. By identifying how several CG variables (ownership structure and board characteristics) influence firm's performance and productivity, this present study is thus beneficial both the financial practitioners and academics (investors and creditors). Consequently, this study adds to the already limited literatures on CG in Dubai by examining the effect of CG on firm performance in Dubai listed firms.

Through this study, non-financial practitioners attain better understanding on how firm performance are affected by CG and which mechanisms are actually related to CG. By providing additional evidences on how CG mechanisms are associated to firms' performance, academicians can thus use this study as a point of reference. The importance of this study stems from the need to raise firm performance through the factors affecting firm performance.

1.7 Scope of Study

The scope of this study is focused on the financial markets in Dubai as a mechanism in generating domestic-led investments to stimulate economic developments. In accordance to the firms enlisted on Dubai financial market (DFM), this study is conducted among listed firms which are operating in the non- financial sectors in the year 2014. Therefore, the mechanisms of CG; ownership structures and board

characteristics (board composition and size) are assessed while the ROA and ROE are used to determine firms' performance.

1.8 Definition of Terms

The terms used in this study are described as below:

- **Firm Financial Performance (ROA)**

ROA as defined by Leuz and Verrecchia (2000) and Xiao, Yang, and Chow (2004) refer to the ratio between the net income and the total assets of the firm. ROA is used to measure profitability or the financial performance of a firm.

- **Corporate Governance (CG)**

CG is defined as the relationships between a firm's board and the management. CG provides the structures by which the firms' objectives are determined. It also regarded as the ways to achieve those objectives and to monitor the firms' performance. "The good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring" (OECD, 2004; p. 18).

- **Agency Theory**

According to Jensen and Meckling (1976), agency theory is "a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent" (p. 308).

1.9 Organization of Study

In Chapter One, the introduction of this research is illustrated. It elaborates the background of the research, problem statement, significance of this study, research questions and objectives followed by research scope and the structure of this study.

In Chapter Two, extensive reviews pertaining to the subject of CG in general, CG in Dubai and the relationship between firms' performance and the mechanisms of CG are presented.

In Chapter Three, the research framework and hypotheses development are elucidated.

In Chapter Four, the methodology and data analysis employed in this study is presented.

In Chapter Five, the relationship between CG mechanisms and firm performance are analyzed based on the collected data.

In Chapter Six, the discussion on the findings is backed by literatures and recommendations for future research are proposed.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this particular chapter, the concepts of firm performance, CG and CG in Dubai particularly and the relationship between board characteristics (board size and board composition), ownership structure and firm performance are elucidated based on the studies conducted by other scholars.

2.2 Corporate Governance

Over the last decades, the accounting scandals involving accounting fraud that exist within corporations throughout the world have resultantly highlighted the importance of CG. Jensen and Meckling (1976) argue that accounting fraud occurs because decisions to allocate firm's resources are made by corporate managers based on their own interest rather than on the general goal of the firm. This action destroys investors' trust and it destructs the firms. These issues can be prevented with the presence of a proper CG system that includes not only a bundle of processes, customs and policies, but also the rules and regulations governing the ways a firm is managed, controlled and administered.

Brickley and Zimmerman (2010, p. 236) express the view that a number of misguided beliefs have arisen regarding corporate governance among academics, politicians and the media. CG plays a crucial role in any firms because it provides a clear picture about firms' objectives. It also enhances corporate relationship by ensuring the accountability of every individual in the firm. This subsequently reduces the problem of principle agency that involves different shareholders and managers. A good CG not

only creates appropriate incentives for the board of directors and executive officers to focus on deciding based on the firms and shareholders interest, but it is also serves as an effective monitoring tool (Doupnik & Perera, 2009).

In comparison to several nations with strong CG, many countries with weak CG suffered during the Asian financial crisis (Johnson, Breach, & Friedman, 2000). This according to Shleifer and Vishny (1997) is due to the fragile CG because the poor economic projections causes expropriation that consequently results in greater fall of assets prices. After the economic crisis of 1997, Malaysia Corporate Governance Practices remained mandatory. During year 1998, the Minister of Finance came up with a plan to restore the loss of trust of the market by announcing the need to establish framework of CG practices for corporations which is founded by the committee consisting of finance experts (Ghazali, 2010).

However, Sama and Shoaf (2005) maintain that corporate scandals that were related to multinational companies such as Transmile Group, Megan Media Holding Bhd in 2005, and Axis Inc. Bhd Linear Corp Bhd in 2009 and Kenmark Industrial Co. and Sime Darby in 2010 still exist even after the establishing and revising of the code in 2007 by the Malaysian government.

The issue pertaining to the relationship between CG mechanisms and firms' performance though has been examined in prior researches results in mixed findings (Chiang, 2005; Ghazali, 2010; Han & Suk, 1998; Johnson et al., 2010).

Johnson et al. (2000) investigate the impact of CG during the Asian financial crisis by using a sample of 25 emerging markets. Their study discovers that many countries with weak CG suffered more than those countries with good CG. The result reflected not only on the loss of confidence of potential shareholders in the market but it also shows declining of prospective economy that caused more expropriation by insiders (management team) that subsequently leads to greater fall in prices.

The issue of accounting scandals gives rise to the importance of CG transparency. Based on a sample of Taiwan's high-tech industry, Chiang (2005) realizes that the relationship between CG and information transparency can be achieved if a standard measurement criteria is in existent. The findings show the presence of the association between CG and information transparency.

The research conducted by Ghazali (2010) aims to study the impact of CG on firm's performance. Through the utilization of Tobin's Q measurement and the data of 87 companies displayed in the Bursa Malaysia, the author found mixed results. Ghazali find that variables such as government ownership are also influencing firm's performance whereas the impact of other corporate variables such as external directors and board size is insignificant to firm's performance.

Han and Suk (1998) investigate how ownership structure affects corporate performance by using stocks return to measure performance. Based on the COMPUSTAT annual data, the researchers employ a sample of 301 companies from year 1988 to 1992. The result reflects that increasing managers' equity directly impact on firm performance. The findings manifest that stock returns and ownership structure

are associated. This explicitly shows the active role of institutional owners in monitoring management.

2.3 Corporate Governance in the United Arab Emirates

The per capita GDP of UAE is significantly satisfactory with evidences of annual trade surpluses. Although the oil and gas forms the basis of UAE wealth, the future of UAE economy varies with the price of commodities. Since three decades ago, UAE has seen a shift from being an underdeveloped region with little desert territories to a progressive and developed nation (World Factbook, 2006).

The corporate sector in the UAE begins to progress in the mid-70s with the presence of several firms establishment due to the strong interest from the federal government and the rise in oil prices intended to shape a solid economy. Majority of the firms are either solely proprietorial or partnered, though the presence of very few corporations is apparent. It is under the amended Federal Commercial Law No 8/1984 that firms operate, although there are a few firms that are governed by the emirate decrees. In line with the growth in the official stock markets and the efforts to privatize larger infrastructure firms, the corporate sector has essentially developed. The Ministry of Economy, the Central Bank and the Emirates Securities and Commodities Authority (ESCA) are the authorities governing the corporate sector while the Federal Auditing Organization is allowed to monitor any firm that is financing with federal government funds.

The inauguration of the UAE stock market took place in year 2000 and two government security exchanges represent this, namely Abu Dhabi and Dubai which

are supervised by the ESCA. The stock market of UAE is comparatively small and new. However, since 2004, it has grown in size and developed in terms of listed companies, the IPOs, market participants range and market capitalization.

The UAE is giving more consideration to the implementation of international CG standards to all of the listed companies on local securities markets due to diffusion of the themes of CG globally and the convergence of UAE economy to the world economy although no formal decree exists thus far. However, there are news that CG will soon be initiated in UAE.

According to Aljifri and Moustafa (2007), the practice of CG is still at an infancy stage and it needs further development and regulation to govern the practice. In 2006, a CG code draft is issued by ESCA. This draft is intended for the improvement of the system of CG for listed firms and this draft focuses on board independence, the quality and responsibility of board members and the conditions to disclose executive decision. Besides reinforcing the internal control system, the draft also helps in the improvement of the financial reporting integrity, market trust and competition.

2.4 Agency Theory

The basis of the agency theory is founded based on the notion that the separation of management (agent) and ownership (principal) in contemporary firms, companies and corporations lead to costs related conflict that resolved between agents and principals (Berle & Means, 1932; Eisenhardt, 1989; Jensen & Meckling, 1976). The essential principle of agency theory is that the manager acts for the protection of the shareholders' interest and not on his/her self-interest. The behavior of the managers that is self-centered or driven by self-interest increases a firm's cost. This includes the

contracts structuring costs, the costs to monitor and control the agents' behavior and the losses of sub-optimal decisions of agents.

The agency problems can be solved with the use of appropriate contracts that specify the rights of a principal and that of the agent (Jensen & Meckling, 1976). Fama and Jensen (1983, p. 302) describe these contracts as "internal rules of the game which specify the rights of each agent in the organization, performance criteria on which agents are evaluated and the payoff functions they face". However, unexpected circumstances and incidents need residual rights apportionment, mostly end up with managers i.e. the agents, with the discretion of funds allocation of their own choice (Shleifer & Vishny, 1997). The discretion of managers is increased because of the difficulty or inability in perfect contract writings and hence creating agency problems. Research scholars proposed some governance mechanisms for addressing agency problems by observing the problems in solving the agency problems. Ownership structure is one such mechanism of governance with which owners themselves directly affect the managers for the protection of their rights (Coffee, 1991; Maug, 1998; Shleifer & Vishny, 1996). In case of distributed ownership, one single owner cannot influence the board constitution thus making the board more powerful to monitor management of the firm. If the managers' negative role is observed in agency theory, the board independence is focused in empirical research on the board effectiveness on the basis of agency theory (Daily, Dalton & Canella, 2003; Dalton, Daily, Ellstrand, & Johnson, 1998).

In case of high ownership structure of the firms, the board has a reduced function of monitoring the firm thus, reducing the agency problem. Moreover, not all the managers are always opportunistic and untrustworthy and the responsibilities of the

board are more than only monitoring management. Following theories elucidate some of the other theories that also reflect the same views.

Based on the agency theory, agent refers to manager while owner is regarded as principal (Meckling & Jensen, 1976). In accordance to the theory, if residual claimants' and owners' returns fall under the expected range when principal are in direct control of the firm, an agency loss thus occurs. Meckling and Jensen (1976) also state that agency theory assumes that a separation between management of a firm and ownership exists due to the interest of conflict between two parties and thus increases agency costs. However, the problem between the managers and shareholders arises when managers hold little equity in the corporation which could create conflict of interests between the groups since managers can easily decide without considering the well-being of shareholders (Bhimani, 2008).

By the same token, Daily et al. (2003) unveil that there are two main issues that can affect the significance of the agency theory. Initially, the agency theory is a straightforward theory that conceptually perceives that the firm is comprised of only the shareholders and managers. The agency theory then circumscribes that managers in organization can be self-centered.

On one hand, Eisenhardt (1989) argues that agency loss reduces in line with the mechanisms specified by agency theory. It includes the schemes of incentive for managers that financially compensate managers for maximizing the interest of the shareholders. The plans of getting a firm's shares at a lesser price is one of the schemes which are used to ensure that shareholders' and executives' interest are congruent (Jensen & Meckling, 1976).

On the other hand, Eisenhardt (1989) discovers that there are other schemes; the executive compensation share which is deferred to the future rewards long-term maximization of value and deters short-term actions of the executives that may damage corporate values. Padilla (2002) claims that based on the agency theory, stockholders expect that decisions are made by the agents in the interest of the principals. However, it is indefinite if the principal's benefits are taken into consideration by the agents when making decisions.

The agents may presumably decide based on his/her self-interests or his/her opportunistic behaviors and these are the differences between the agent's interests and the principal's aspirations. The understanding and meaning of the risk may also differ in different contexts of agents and the principals. The introduction of agency theory is centred on the detaching control and ownership (Bhimani, 2008).

In addition, the agency cost is also found in most employers and employees relationship. Jensen and Meckling (1976) discover that people are accountable for their responsibilities and tasks. Employees need to be governed based on a good structure of governance rather than mere provision of shareholders' need, which may sometimes be challenging to the governance structure.

2.5 Firm Performance

Firm performance denotes the dependent variable of this study, with ROE and ROA taken as the indicators of the performance of the firm. ROA generally differs in numerous firms and it embodies the measurement of effective use of assets. In comparison to benchmark rates of return which is equivalent to the risk adjusted weighted average cost, ROA essentially indicates a firm's profit level. Furthermore,

ROA measures the financial performance and operation of a firm (Klapper & Love, 2002). Hence, a greater ROA portrays that the actual assets use is beneficial for investors (Haniffa & Hudaib, 2006).

Miller et al. (2001) assert that ROA demonstrates a measure for gauging the general efficiency means whether the utilization of the assets of the firm is in line with the objectives of the firm. With regards to this, ROA measures the effective management of capital allocation.

ROA has widely been employed in CG studies (Baysinger & Butler, 1985; Brown & Caylor, 2004; Chen et al., 2007; Coles & Jarrell, 2001; Haniffa & Hudaib, 2006; Judge et al., 2003; Khatri et al., 2002; Klapper & Love, 2004; Rechner & Dalton, 1991; Rhoade, Rechner, & Sundaramurthy, 2001; Sunday, 2008).

A satisfactory and good CG plays a vital role in a firm's performance. In addition to increasing a firm's value, CG also prevents mismanagement. Over the last 20 years, businesses globalized and most international firms begin to accept CG in their effort to enhance their firm's performance and to attract as many investors from numerous countries in the world. The linkages between CG mechanisms and firm's performance are found to be positive by several scholars (Chen, 2008; Chiang, 2005; Ghazali, 2010; Han & Suk, 1998; Mak & Kusnadi, 2005; Yermack, 1996; Young et al., 2008). On the contrary, there are various authors such as Baek, Kang and Park (2004), Chen et al. (2007) and Filatotchev, Lien, and Piesse (2005) who suggested a negative association between the CG mechanisms and firm performance.

In this study, the variables, namely board composition, board size and ownership structure are being illustrated. The following part of the research deliberates on the

variables guiding the direction of this study, in which both dependent and independent variables are explicitly explained in the sections that follow.

2.6 Corporate Governance (Board Characteristics) and Company Performance

This section delineates the relationship between i) board size and firm performance and ii) board composition and firm performance.

2.6.1 Board Size and Firm Performance

Board size is analogous to the number of directors in a board. This is an essential determinant of the board efficiency. Jensen and Meckling (1976) state that firm improvement is guided by the growth of board size. The effectiveness of board lies in how the management is in support of decreasing agency cost. All executive and non-executive staff receives commands from the chairman. The optimal size of the board as suggested by past researchers is between five and fifteen members (Ogbechie, Koufopoulos, & Argyropoulou, 2009).

There are numerous studies that investigated the association between firm performance and board size in listed Japanese firms. Bonn, Yokishawa and Phan (2004) find a negative association between firm performance and the size of the board. Mohd Ghazali (2010) analyzed the data of Malaysian firms and found no significant relationship between board size and corporate performance.

Shakir (2008) also notices an adverse association between size of the board and a firm's performance. Jensen (1993) suggests that the size of the board should be small in order to achieve efficient monitoring. Haniffa and Hudaib (2006) discover that the board is not as efficient and effective in supervision of actual performance. Besides,

the existent of a board is also relatively more expensive due to increased incentives and compensation (Haniffa & Hudaib, 2006). Bozeman's (2005) study based on the Canadian public companies provides evidences of a negative relationship between board size and firm performance (as measured by ROA, ROS and efficiency of sales). Gill and Shah (2012) sampled Canadian firms from 2009 to 2011 and found that CEO duality and board size positively impact corporate cash holdings.

Meanwhile, the initial studies pertaining that board size (determined by the number of directors in the board) correlates positively to firm's performance. A larger amount of directors in the board denote good performance because the skill variety implies better decision making and monitoring of firms' performance. Using OLS regression, Mak and Li (2001) reveal a negative relationship between size of the firm and social returns. The research is conducted based on a data of 147 Singaporean companies in 1995.

Adams and Mehran (2005) identify that performance and board size in the banking industry in USA is positively associated. Dalton and Dalton (2011) recognize that the relationship between board size and firm's performance is a positive one. The results of the study conducted by Pfeffer (1972) and Zahra and Pearce (1989) are also consistent with the above findings where board size is significantly related to firm's performance. The researchers argued that larger boards are better for the firms due to the skills possessed by directors. The adoption of internal control devices, such as board size, number of committees supporting the board of directors and separation of the roles of chairman and chief executive, may enhance monitoring quality and consequently improve firm's performance (Larcker et al., 2007; Mashayekhi and Bazaz, 2008; Stanwick and Stanwick, 2010; Ghazali, 2010).

2.6.2 Board Composition and Firm Performance

Board composition is discussed both theoretically and empirically in terms of organizational management, economics and finance. The discussion focuses on what are the most efficient methods to monitor and determine whether the executives are taking into considerations shareholder's interest or otherwise (Ramdani & Witteloostuijn, 2009). Young (2003) advocates the significant of directors' independence because directors are directly related to the firm. Young (2003) thus remains skeptical of effective monitoring considering that it challenges the rationale behind a proposed merger.

With regards to the agency theory, it is learnt that larger proportions of independent directors enhance firm's performance. Ramdani and Witteloostuijn (2009) assert that the board size of independent directors is significantly affecting medium-performance firms but it does not affects firms of above or below average performance.

Studies investigating the affiliation between firm's performance and the composition of the board reveal mixed findings. Forsberg (1989), Hermalin and Weisbach (1991) and Zahra and Pearce (1989) find an insignificant connotation between composition of board and firm's performance. In contrast, some researches reveal that in firms where boards of directors are dominated by external board members are in fact better performers (John & Senbet, 1998; Mehran, 1995; Resenstein & Wyatt, 1990; Weisbach, 1988).

Meanwhile, Forsberg's (1989) study discovers that the different measurement of firm performance and the number of external board directors are not related. Generally, boards are comprised of large proportion of external directors. In contrast, Kosnik (1987) and Kyereboah-Coleman and Biekpe (2005) reveal a positive correlation between performance and the number of external board members. Although it is

apparent that there are studies that are in support of agency theory (Baysinger & Butler, 1985; Daily & Dalton, 1993; Klein, 1998; Pearce & Zahra, 1992), there are some studies that find no association between board independence and the measurement of firm's performance (Bhagat & Black, 2002; Hermalin & Weisbach, 1991). The researcher asserts that firms that are not performing well are more likely to encourage board independence.

2.7 Ownership Structure and Firm Performance

There are several reasons why the effect of state structure on firm performance has increasingly gained attention in research. In many countries, state ownership accounts for the largest proportions of shares in any listed companies. It is also used by the government as a policy instrument. Economists substantiate that state ownership may undermine firms' performance (Shleifer & Vishny, 1996). For instances, one of the proposed motive may be due to the political pressure for employment which is probably larger on SOEs. Secondly, the difficulty in lack of restructuring and interest in monitoring managers portray how ownership affects firms' performance. In contrary, many economists claim that state ownership positively affects firm's performance, especially in developing countries. They assert that state ownership facilitates the solution of issues regarding unclear rights of property (Jefferson, 1998; Stiglitz, 1996, 1997; Sun et al., 2002).

The research conducted by Lin et al. (1998) on ownership reforms in China discovers that decreased state-ownership may undermine firm performance and causes problem between the principal and agent. Legal shareholding is important in order to provide companies with the freedom of investment decisions, assets disposal and the

allocation of profit. Moreover, legal shareholders are also highly efficient in management monitoring since they are usually dominant shareholders.

Experimental results in previous researches on the issue of ownership reforms and firms' performance however remain elusive. The study of Xu and Wang (1999) which is based on the data obtained Chinese companies over the period of 1993 to 1995 reveal a negative correlation between state ownerships and firm profitability. The study finds even weaker association between market to book value and state ownership.

Meanwhile, Sun and Tong (2003) argue that state ownerships and legal person ownership are associated to firm performance. Their data obtained from listed companies in between year 1994 to 2000 demonstrate contradicting result; state ownerships and legal person ownership impact firm's performance, both negatively and positively when firm's performance is determined based on market-to-book values. However, they discover that state of ownership does not really influence return upon sales. In another study conducted by Sun et al. (2002), the result varies significantly. Using the data obtained from listed companies in between year 1994 to 1997, Sun et al. (2002) discover that in addition to legal person share, state share ownership is also positively correlated with firm performance. Their results provide empirical evidences that legal person ownership is in fact similar to government ownership.

Other studies discover a different association between firm's performance and state ownership. Tian and Estrin's (2005) study conducted from year 1994 to 1998 confirms a U-shaped relationship between firm performance and state ownership.

According to Tian and Estrin (2005), state ownership and corporate value up to threshold level is negatively associated. However, when the result surpasses the threshold level, it deviates and forms a positive relationship. While Tian and Estrin (2005) discovers a U-shaped relationship between firm performance and state ownership, Sun et al. (2002) and Sun and Tong (2003) on the contrary propose an inverted U-shape relationship between i) firm performance and government ownership and ii) firms' market value and legal person ownership. The study conducted by Delios and Wu (2005) based on public listed firm in two stock exchanges from year 1991 to 2001 in China provides empirical evidences that a U-shaped pattern exists between Tobin's Q and legal person ownership.

2.8 Control Variables

The two control variables, leverage and firm size play a vital role in this study because these variables are among the many CG characteristics that directly influence firm performance. Prior studies conducted by Guner, Malmendier, and Tate (2005) and Leng (2004) confirm that both firm size and leverage are correlated to firm performance. Thus it is assumed that firm size and leverage are correlated with ROA and ROE.

2.8.1 Firm size

In this study, size of the firm serves as control variable because firm characteristics diverse significantly. Lehn, Patro, and Zhao (2003) argue that growth and firm size are significant determinants of the structure and size of the boards. The association between firm size and board size portrays a positive linkage although it is negatively

linked to growth opportunities (Lehn et al., 2003). Thus, it can be determined size of firm influences a firm's performance considerably.

The size of the firm affects the performance of the firm. This is commonly used as one of the control variables in CG researches (De Andres, Azofra, & Lopez, 2005; Ghosh, 2006; Yan, Jian, & Nan, 2007). In comparison with smaller firms, larger firms are not usually affected due to greater agency problems (Lehn et al., 2003). However, due to the use of economies of scale, more skilled labor such as managers who possess more power in the market, larger firms are hence more effective than their smaller counterparts (Kyereboah-Coleman and Biekpe, 2005). Likewise, Coles et al. (2001) maintain that firm requires more members of the board and specialist directors to assist in monitoring managers' performance in the growth stages. Haniffa and Hudaib (2006) examine the log natural of sales and Peng, Zhang, and Li (2007) measure size by log natural of total assets of the firm.

Hovey's (2010) study based on Chinese listed firms that investigate the relationship of firm size and capital structure and unveils that firm size has an inverse and significant relationship with leverage. Similarly, Abor and Biekpe (2006) assess the linkages between firm size and the structure of capital among smaller and medium-sized firms in Ghana and they discover the same results; negative and significant. The study conducted by Berger, Ofek, and Yermack (1997) on the industrial companies in the US is supported by Hovey's (2010) and Abor and Biekpe's (2006) studies. Although Sinan (2010) uses different concepts of leverage at a different time, Bokpin and Arko (2009) and Wen, Rwegasira, & Bilderbeek (2002) nevertheless discovers a significant positive relationship.

Meanwhile, in Han and Yao's (2011) study where they use log of sales to measure firm size, a negative relationship is evident. Instead of log of sales, Bhagat and Black (2000) use log of assets as size control for all performance and growth variables. Nevertheless, the results of Bhagat and Black's (2000) study are similar to the regressions with log of sales employed by Han and Yao (2011).

2.8.2 Leverage

The control variable, leverage plays a crucial role in this study because leverage is a firm's characteristic that either directly or indirectly influences firm performance. As discovered in past studies, the importance of leverage for firm performance produces mixed results (Guner et al., 2005; Leng, 2004; Welch, 2003). Empirical research supports the positive association between leverage and firm size (see e.g. Rajan and Zingales, 1995; Frank and Goyal, 2003; De Jong et al., 2008; Noulas and Genimakis, 2011; Al-Najjar and Hussainey, 2011a, b).

Welch (2003) assesses the influence of leverage on performance of Austrians listed companies which are listed on stock exchange market and reveals that firm's debt levels and firm performance are nonexistence. Leng (2004) analyzes the influence of leverage on performance in accordance to a sample of 77 firms listed in Bursa Malaysia. The result showed that firm size is directly affecting firm's performance.

Guner et al. (2005) investigate the influence of board members on financing and investment decisions in accordance to a sample size of 500 firms from CompUSA and they notice that increased access to finance has direct influence on firm performance.

Kyereboah-Coleman and Biekpe (2005) and Alsaeed (2006) acknowledge that debts affect a firm's financial performance. Alsaeed (2006) measures leverage through the ratio of total liabilities and total assets.

Debt ratio refers to the total amount of both long-term debt and short-term debts or it also equals to the extent of liability from the percentage of total assets. It is argued that firm's performance is affected by its debt ratio. While, reduced cash flow may produce a positive impact, firm requires more control for market exposure. Jensen and Meckling (1976) argue in the discussion of agency theory that the firm has to leverage for supporting the cost of monitoring as debt levels rise. Managers can provide better oversight in most effective committees and boards.

Agency theory forecasts the magnitude of how much change in leverage increases board effectiveness. In contrast, failure or cost of agency fee of debt can cause a negative effect (Jensen, 1986). This present research measures leverage by the ratio of total liabilities and total assets.

2.9 Chapter Summary

This section aimed at examining the impacts of CG characteristics upon firm performance by summing up the works of previous studies that are related to CG and firm performance. This study takes into account the studies of CG, agency theory, firm performance, board size, board composition and ownership structures.

CHAPTER THREE
THEORETICAL FRAMEWORK AND HYPOTHESIS

3.1 Introduction

While the first two chapters exemplify and discuss the foundations of this study and the contributions of earlier studies on the areas of CG, this chapter discusses the theoretical framework in relation to agency theory before proceeding to hypothesis developments.

3.2 Theoretical Framework

The study examines the relationship of board characteristics on firm performance through the lens of agency theory. Agency theory defines the association between the principals and the agents. The agency theory presumes that manager makes decisions based on their interests rather than wealth of investors. The decisions should be based on shareholders' wealth and this causes disputes and conflicts between shareholder and managers. Agency theory perceives that a separation between ownership structure, board management and the characteristics of a firm exists. Agency costs rises in relation to the conflicting encounters of interest between the contracting different parties (Jensen & Meckling, 1976).

The board characteristic is examined to measure its influence on firm's performance. Taken into consideration the independent directors, the board characteristics include a vast variety of factors such as board size, ownership structure and board composition.

Figure 3.1 below illustrates the theoretical framework.

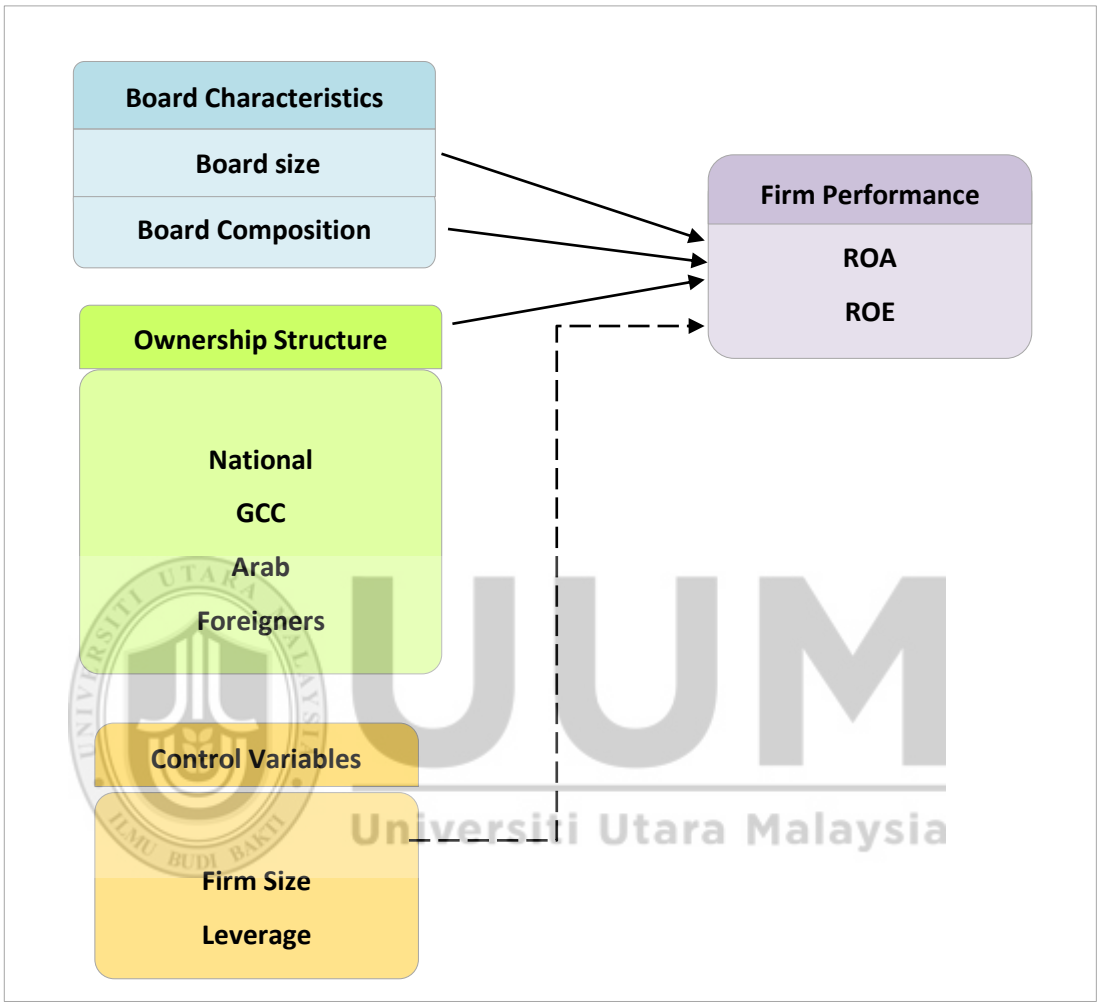

Figure 3.1
Theoretical Framework of this Study

3.3 Hypothesis Development

The development of hypotheses of this study is elucidated in the following subsections.

3.3.1 Board Size and Firm Performance

Few studies discover that firm performance and size of the board is positively related. Bokpin, Isshaq, and Otchere (2011) and Kiel and Nicholson (2003) explore the association between firm performance and CG and they note that board size affects firm performance; if board size is in contradiction with board increase, this decreases a firm's value. Additionally, larger numbers of boards of directors may result the cause two problems. In line with larger number of boards, cost of administrative expenses rises and firm performance reduces. Yet, there are some studies that disapprove, claiming that board size is negatively affiliated with firm performance. Yermack (1996) posits that linkage between firm performance and board size is negative. Other empirical studies intending to explore the effects of board size and firm's performance observe that firm values and board size are negatively related (Chen, 2008; Conyon & Peck, 1998; Eisenberg, Sundgren, & Wellss, 1998; Mak & Kusnadi, 2005). Based on the findings from earlier studies, the hypothesis is thus developed:

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

3.3.2 Board Composition and Firm Performance

Board composition refers to the numbers of directors that freely serve on the board. The numbers of free board directors reduces agency problem because independent director has better control of the management (Jensen & Meckling, 1976). Baysinger and Butler (1985) affirm that firm performance improves in line with the presence of non-executive directors.

To fulfill a firm's objectives, an equilibrium between executive and non-executive directors needs to be present (Mallin, 2007). Cadbury (1992) maintains that non-executive directors should be excluded, not only in businesses but also from other

contacts and affiliation that influence them from exercising autonomous judgment. Thus they should be made independent and separated from management. In the same way, OECD (2004) asserts that the aim of independent board is to gain adequate numbers of directors that do not belong to the management team.

In many studies, the relationships between board compositions and firm's performances are found to be generally positive. Millstein and MacAvoy (1998) uncover that firm performance and independent board of director in the United States firms are positively related. Moreover, Kosnik (1987) and Kyereboah-Coleman and Biekpe (2006) assert that the non-management directors determine a board's strength. Nonetheless, other studies discern that firm performance is negatively related to board composition (Baysinger & Butler, 1985; Haniffa & Hudaib, 2006; Klein, 1998). Sunday (2008) examine how a firm's performance is affected by board composition. However, Sunday's (2008) study provides no significant evidences that a firm's performance which is measured based on ROA and profit margin are related to board composition. Based on the recent discussions, the formulated hypothesis is identified:

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

3.3.3 Ownership Structure and Firm Performance

Prior empirical studies on the ownership structures–performances relationship for Asian markets provide inconclusive findings. While some studies report of a positive relationship (Xu & Wang, 1999), others discern either negative relationship (Hu, Tam, & Tan, 2010) with some studies evidently produce mixed results (Haniffa & Hudaib, 2006). Although these studies take into consideration the potential sources of endogeneity, these studies seem to have ignored the dynamic endogeneity.

Recent empirical studies in the Australasian regions which take into account the dynamic endogeneity have likewise reported inconclusive result. Some studies report of an insignificant relationship for the Australian market (Pham et al., 2011; Schultz et al., 2010) whereas other studies reported of a significant relationship for the Japanese market (Yabei & Izumida, 2008). Based upon the conflicted predictions of the above mentioned arguments and agency theory, it is proposed that a significant links between performance and ownership structures exists, however the directions for these relationships are not established.

Berle and Means (1932) reckon that performance and ownership structures are positively related while other studies discover that both the variables are not related (Demsetz & Lehn, 1985; Demsetz, 1983). The studies though do not negate the importance of ownership structures considering that CG is determined by ownership structure and legal protection forms (Shleifer & Vishny, 1997). This signifies that larger shareholders are beneficial in comparison to their smaller counterparts because these shareholders possess the authority to stop manager from improper asset management.

For better understanding of ownership structure in other part of the world, La Porta, Lopez-de-Silanes, and Shleifer (2002) study how ownership structure in 27 developed countries is associated to firm's performance and they discover that cash-flow ownership is positively related to firm's performance. In firms where shareholder's protection is rather anemic, firm performance is more significantly affected by ownership structure. Ng et al. (2008) also conducted a similar study in China.

Abbas et al. (2013), Wellalage and Locke (2012) and Soliman (2013) argue that a greater number of shareholders are an effective monitoring tool that can be used as the main mechanism to protect weaker shareholder. Nonetheless, Shiab and Abu-

Tapanjeh's (2005) study on the impact of ownership structure and firm's performance in Jordan listed firms discover insignificant relationship. The contradictory findings are in line with La Porta, Lopez-De-Silanes and Shleifer's (1999) study.

In that particular study, La Porta et al. (1999) claim in a situation where institutional and formal frameworks do not provide enough protections for foreign investors such as in Dubai, concentrated ownership can be employed to resolve conflicts between shareholders.

Ownership structure is regarded as an efficient governance mechanism. According to Siala, Adjaoud, & Mamoghli (2009), ownership structure is among the many mechanism in the agency theory. Nonetheless, ownership structures enable better control of managers so as to prevent expropriation (La Porta et al., 1999; Morck et al., 1988; Shleifer & Vishny 1997).

Based on the recent discussions, the following hypotheses are developed:

H3a : ***There is a relationship between national ownership structure and firm performance***

H3b : ***There is a relationship between GCC ownership structure and firm performance***

H3c : ***There is a relationship between Arab ownership structure and firm performance***

H3d : ***There is a relationship between foreign ownership structure and firm performance***

3.4 Chapter Summary

The theoretical framework of this chapter is illuminated based on the agency theory. The discussion of this chapter is followed by hypotheses developments in which six hypotheses in relation to CG and firm's performance are examined. The following provides an overview of the research methodology employed in this study.

CHAPTER FOUR

METHODOLOGY

4.1 Introduction

The chapter elaborates the methodology that is employed in this study. The research methodology facilitating the investigations and analyses of this study are explicated in following sections. In this chapter, the research process is elucidated. The research design, the techniques of data collection, specification of econometric model and ways to measure the variables are also described. Descriptive analysis used to describe the data and the correlations among variables and multiple regression analyses are also explained. A summary is finally presented.

4.2 Research Design

To achieve the aim of the research, to examine the relationship between the predictors namely, board composition, board size, ownership structures and performance (which is determined and measured by ROA and ROE), a regression analysis is conducted.

4.3 Unit of Analysis

Sekaran and Bougie (2010) and Zikmund et al. (2005) find that the in order to resolve the problem statement of any study, researchers need to explain the level of analyses in addition to the level of aggregations that occur during the data analysis phase when data are collected. The analysis level can be discussed at the group, individual, business units or firm levels. This study employs the firm level as the level of analysis because this level contains the higher level of firm structures. In fact, high-level

managers act as a set of evaluators of a firm's activities (Janczak, 2004; Nonaka & Takeuchi, 1995). Parallel with the objectives of this study, it is thus apposite to choose the reliable firm level as the level of analysis.

4.4 Data Collection

The sample consists of non- financial firms that are listed in this study, on Dubai Financial Market (DFM) (http://www.dfm.ae/Default.aspx) in the year 2014. Concerning 79 companies, in DFM. Due to the differences in the regulatory requirements, and the characteristics of their financial reports that are various from those of non-financial companies, the banks and the other financial institutions are excluded in this research (Alsaeed, 2006). So, the year 2014 is chosen in this research for non-financial companies. The year's annual reports shaped the latest source of information available at the time the research was at first conducted. Thus, this study based on secondary data.

4.5 Data Collection Procedures

The procedure of the data collection in this research was focused on secondary data retrieved from annual report from the year 2014. Hence, as to answer the research questions, the annual reports of Dubai listed firms gathered from DFM are employed. The retrieving of information based on secondary data not only saves costs, but it also saves time. These sources provide considerable information for problem solving (Sekaran & Bougie, 2003). Data stream is employed to collect the financial data, typically ROA and ROE, total debt to entire asset and total asset.

Concurrently, the goal behind the analyses is the independent determination variables that are important to determine firm performance. A set of directors (taken as the number of external directors divided by total amount of directors) is included.

4.6 Multiple Regressions and Model Specifications

The multiple regression method is employed to study the relationships between board size, board composition, ownership structure and performance in Dubai Stock Exchange companies.

The output of the regression analysis demonstrates the best predictions of the dependent variables from a set of explanatory variables.

The output of regression analysis is obtained through the following equation:

$$\mathbf{FIRMPFC = \alpha 0 + \beta 1\ STRUOWN + \beta 2\ BOADSIZE + \beta 3\ BOADCOM + \beta 6\ FIRMSIZE + \beta 7\ LEVERAGE + \varepsilon}$$

Where:

FIRMPFC firm's performance

α0 denotes constant

STRUOWN ownership structure

BOADSIZE board size

BOADCOM board composition

FIRMSIZE firm size

LEVERAGE leverage

ε denotes error term

To assess the explanatory variables of selected dependent variable, ownership structure and board characteristics, the total dependent variables are included into the regression equation concurrently.

4.7 Measurement of the Variables

The measurements for dependent and independent variables and the controls variables are described in following sections.

4.7.1 Dependent Variables

The measurement used to measure firm's performance is based on the ROA and ROE. These are used to differentiate the effects that CG structure has on the types of firm's performance. ROA is measured as the ratio between the earning before tax and the entire assets of the firm while the ROE measures how the shareholders are earning on behalf of their firm's investors.

4.7.2 Independent Variables

The independent variables of this study (board size, board composition, ownership structure, firm size and leverage) are discussed below:

- **Board size: (BOARDSIZE)** total number of directors on the board.
- **Board composition**: **(INDDIR)** percentage of independent directors on the board.
- **Ownership structure:**
  - **GCC**: the cumulative Gulf Cooperation Council ownership
  - **Arab**: the cumulative Arabian ownership.
  - **Foreign ownership: (FOROWN)** the cumulative foreign ownership.
- **Firm size (FIRMSIZE):** The natural logs of entire assets.

- **Leverage**: **(DBTASS)** total debt to total assets.

4.8 Data Analysis

The data collected are analyzed using SPSS 20 that consists of descriptive statistics and inferential statistics respectively. It provides the summary and detailed answers of the research questions using the information collected from the firms that are enlisted in Dubai stock market.

4.8.1 Descriptive Analysis

Descriptive analysis analyses the mean values, minimum and maximum values of the data set, the standard deviation and variance of all the variables employed in this study.

4.8.2 Correlation of Variables

This research establishes the interrelationship between and among variables. The outcomes of correlation analysis depict the natures, directions and significance of the mutual linear association among involved variables that are employed in this study. Pearson's correlation coefficient is used to determine the mutual linear association.

4.8.3 Multiple Linear Regression Analysis

This study employs the multiple linear regression analysis to investigate the dependency of dependent variables. The analysis includes predictors or explanatory variables that are controlling the effects of control variables in the regression analysis.

4.9 Chapter Summary

The methodology employed in this study is explained in this chapter. It includes the measurements and the explanation of the variables employed in this study. The regression model, techniques of data collection and data analysis are also illustrated. The discussion of data collection illustrates the population of this study and the sample size. Additionally, SPSS version 20 is employed to analyze the data. The data analysis involves the statistical techniques of correlation, descriptive analysis and regression analysis. The next chapter discusses the results of this study.

CHAPTER FIVE

FINDINGS AND DISCUSSION

5.1 Introduction

This chapter discusses the findings based on the analysis of the relationship of CG variables (board characteristics, ownership structure and control variables) and firm performance (measured in terms of ROA and ROE). The results of this study are illustrated in the tables found throughout this study. Descriptive statistics are calculated in this chapter, followed by correlation analysis and then the assumptions underlying classical linear regression model are tested. Lastly, the output of multiple linear regressions is discussed. The SPSS V.20 is used for data analysis.

5.2 Descriptive Statistics

The analysis begins with the descriptive analysis of multivariate data in which the mean and standard deviation of the data are calculated (Genser et al., 2007). Table 5.1 below shows the values of the mean and the standard deviations of the collected data.

As illustrated in Table 5.1, the descriptive statistics reveal the variables in the model are substantially dispersed as shown in terms of the difference in the minimum and maximum values in between the variables. The maximum value indicates that there is a broad range of variations in the samples as well as the standard deviation.

Table 5.1
Summary of Descriptive Statistics

Variables	N	Mean	Minimum	Maximum	Std. Deviation
Size	79	7.088608	3.0	13.0	1.9624022
Composition	79	.615190	.330	.830	.1128859
National	79	.692519	.000	1.00	.3504613
GCC	79	.141342	.000	.940	.2299556
Arab	79	.050380	.000	.423	.0852021
Foreigners	79	.095532	.000	.885	.1795671
Firm Size	79	7.584051	3.54	10.34	1.526592
Leverage	79	.7770513	.55	.93	.088378
ROA	79	. 057106	.000	.185	.0459451
ROE	79	.110443	.000	.299	.0595761

The mean value of board size for firms listed in Dubai is at an average of seven members, with a maximum of 13 and a minimum of 3 members and the standard deviation is 1.96. On average, the listed firms in Dubai choose an optimal amount of board members. This is coherent to the studies conducted by Jensen (1993) and Lipton and Lorsch (1992) where the average (or optimal) board size US firms is between 8 to 9 members. The second variable, composition sees an average of .615 while the values of minimum and maximum are 0.330 and 6.830 respectively with a deviation of 0.112.

In terms of ownership structure, the mean of national ownership structure is recorded at about 69.2 %, with a 100% maximum and 0 minimum while the standard deviation

is recorded at .350. This means that most of the markets are acquired by national investors, followed by GCC (with mean of 14.13%, 94.0% maximum and 0 minimum and the standard deviation of .229), foreigners (with mean of 9.55% and a maximum of 88.5% and 0 minimum while the standard deviation is recorded at .179) and finally the Arab investors (with a mean of 5.03%, 42.3% of maximum and 0 minimum and the standard deviation of .085).

Additionally, the mean of firm size is 7.584051 with a maximum of 10.34 and a minimum value of 3.54. The standard deviation of 1.526592 is evident. Similarly leverage is recorded at a mean of .7770513, with the highest value of .93 and the lowest value of .55 in addition to the standard deviation of .088378.

Based on the descriptive analysis as summarized in Table 5.1, the mean value of ROA is .057 with a maximum and minimum level of ROA at .185 and 0.00 respectively. The standard deviation is .0459. This shows that there is a wide variation of ROA across the firms of this study. The mean value of ROE is .110 with a maximum and minimum level of ROE .299 and 0.00 respectively. The standard deviation is .059. This shows that there is a wide variation in the ROE across the firms that are taken as the sample of this study.

5.3 Correlation Analysis

Correlation analysis is used to establish and examine the degree of mutual linear association among variables involved in the analysis (Levin & Rubin, 1998). The correlation analysis is the beginning step in the statistical techniques that determines if a mutual relationship between two or more variables exists. For this reason, the correlation analysis to examine the level and direction of mutual association of

variables involved in the analysis needs to be conducted prior to performing the regression analysis. The value of the correlation coefficient lies between minus one to plus one. Minus one represents perfect negative correlation while plus one represents perfect positive correlation and a value of zero shows no correlation between two variables. Table 5.2 discloses the values of the coefficient of correlation between board size, board composition, ownership structure (national, GCC, Arab, and foreigners) with firm performance (ROA, ROE).

Furthermore, multicollinearity is a problem in multiple regressions that develops when two or more explanatory variables are highly correlated with either one or more independent variables. According to Gujarati (1995) and Naser, Al-Khatib, & Karbhari (2002), the variance inflate factor (VIF) indicates that an issue with multicollinearity persists if VIF exceeds 10%. However, when the value of VIF falls below 10%, the independent variable is safely run in the same model. According to Pearson correlation that is presented in Table 5.6, it is discovered that not all correlation between independent variables is less than 10%. This study finds that the variable namely national ownership exceeds the value of 10%. Hence, a multicollinearity problem of the study exists and this suggests that this study's independent variables cannot be combined in the same regression equation model. Thus, the national ownership is dropped due to the high correlation (0.72).

Table 5.2
ROA Correlation Matrix (Pearson)

Variables	ROA	National	GCC	Arab	Foreign	Size	Composition	Firm Size	Leverage
ROA	1								
National	-0.180*	1							
GCC	0.034	-0.726***	1						
Arab	0.032	-0.465***	0.285***	1					
Foreigners	0.339***	-0.580***	0.014	0.105	1				
Size	0.038	-0.008	-0.068	0.153	0.102	1			
Composition	0.430***	-0.104	0.137	-0.127	0.110	0.091	1		
Firm size	0.715***	-0.180*	0.072	0.086	0.205*	-0.023	0.228**	1	
Leverage	0.643***	-0.158	0.052	0.042	0.221*	0.056	0.1897*	0.475***	1

Table 5.3 below depicts the correlational association between the governance variables with firm's performance. The results indicate that board size and ROA portrays a positive correlation (0.038) although not significant. Similarly, board composition and ROA (0.430***) is also positively correlated and with a significant level of 0.01.

Foreigners also portray a positive correlation with ROA (0.339***) at a significant 0.01 level. Although GCC is not significantly correlated to firm performance, the relation with ROA is however positive (0.034). Similarly Arab has no significant correlation but it also portrays a positive relationship with ROA (0.032).

As illustrated in Table 5.3, the control variables (firm size and leverage) portray a positive relationship (0.714*** and 0.643*** respectively) and is significantly correlated with ROA at level 0.01.

Thus, it can be concluded that all the variables are positively correlated with ROA, namely foreigners, composition, firm size, leverage, GCC, size and Arab. On the contrary, only four variables are significantly correlated with ROA, namely foreigners, composition, firm size and leverage.

Table 5.3
ROA Correlation Matrix (Pearson) excluding National Ownership

Variables	ROA	GCC	Arab	Foreign	Size	Composition	Firm Size	Leverage
ROA	1							
GCC	0.034	1						
Arab	0.032	0.285***	1					
Foreigners	0.339***	0.013	0.105	1				
Size	0.038	-0.067	0.153	0.102	1			
Composition	0.430***	0.137	-0.127	0.110	0.091	1		
Firm Size	0.714***	0.072	0.086	0.205*	-0.017	0.228**	1	
Leverage	0.643***	0.052	0.042	0.221*	0.056	0.190*	0.475***	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Table 5.4 below shows the correlation association between the independence variables with firm's performance. This study discovers that board size and ROE has a positive correlation (0.023) though not significant. Board composition and ROE is also positively correlated (0.355***) and at the significant level of 0.01.

In addition to that, foreigners are positively correlated with ROE (0.307***) and it is also significant at 0.01 level. Contrariwise, not only does GCC has no significant correlation but it also portrays a negative relationship with ROE (-0.085). Arab depicts a positive relationship with ROE (0.062) although no significant relationship is discovered.

Both the control variables of firm size and leverage portrays a positive relationship (0.526*** and 0.398*** respectively) and it is also significantly correlated with ROE at level 0.01.

In summary, it can thus be established that most of the variables, namely foreigners, composition, firm size, leverage, Arab and size are positively correlated with ROE while GCC is the only variable that depicts a negative relationship. Meanwhile, four variables namely foreigners, composition, firm size and leverage are significantly correlated with ROE.

Table 5.4
ROE Correlation Matrix (Pearson)

Variables	ROE	GCC	Arab	Foreign	Size	Composition	Firm Size	Leverage
ROE	1							
GCC	-0.085	1						
Arab	0.062	0.285***	1					
Foreigners	0.307***	0.013	0.106	1				
Size	0.023	-0.067	0.153	0.103	1			
Composition	0.355***	0.137	-0.128	0.110	0.091	1		
Firm Size	0.526***	0.072	0.086	0.205*	-0.017	0.228**	1	
Leverage	0.398***	0.052	0.042	0.221*	0.056	0.190*	0.475***	1

** Correlation is significant at the level of 0.01 (2-tailed).

* Correlation is significant at the level of 0.05 (2-tailed).

5.4 Multiple Regressions Analysis

Multiple regression analysis is a technique that is employed to determine the relationships between one or more independent variables and one dependent variable statistically. Two assumptions of multiple regressions tests, namely normality test and multicollinearity tests are discussed in the next section that follows.

5.4.1 Assumption of Multiple Regression

Prior to formally initiating the multiple regression analysis, it is vital to examine the basic assumptions underlying the classical linear regression model. Therefore, in order to test the normality and linearity assumptions of the regression model, normality and multicollinearity tests are conducted.

5.4.1.1 Normality Test

Two analyses namely skewness and kurtosis are performed to test the normality of data distribution. The former analysis displayed normality of data with output values between ±3 (Coakes & Steed, 2003) while the kurtosis analysis also displayed normality with the output values of between ±3 (Kline, 1998).

Table 5.5 displays the outcome of the two analyses. The analysis implies that all the value of skewness is located between the ranges of ±3. Therefore, ROE, ROA, size, foreigners, Arab, GCC, firm size, leverage and composition are distributed normally as shown by kurtosis statistical value of more than +3 and -3. According to Hair (2010) this value is accepted and thus the data of this study takes into consideration to include

ownership as the outcome displayed through kurtosis analysis is normal, regardless of the skewness analysis.

Table 5.5
Normality Tests

Variables	N	Skewness Statistic	Kurtosis Statistic
Size	**79**	.353	.532
Composition	**79**	-.174-	-.199-
GCC	**79**	2.036	3.000
Arab	**79**	2.343	3.000
Foreigners	**79**	2.947	2.470
Firm Size	**79**	-0.278	2.659
Leverage	**79**	0.003	2.180
ROA	**79**	.803	-.213-
ROE	**79**	.606	.948

5.4.1.2 Multicollinearity Test

If the outcome of the multicollinearity, the study reveals the presence of multicollinearity as the independent variables are highly correlated. This poses a critical issue in multiple regressions due to the challenges that arise in identifying the effect of one variable upon the dependent variable. According to Hair, Tatham, William, and Anderson (1995), one of the many ways to check for the existence of relationships among independent variables is through multicollinearity test, in which it generally explains how one variable is

determined by another variable. A popular method of multicollinearity detection and measurement utilizes VIF to determine the influence of a study's independent variable (Naser et al., 2002).

In cases whereby VIF is more than 10, this signifies that a high correlation is presence among the independent variables and thus poses an issue to multicollinearity (Silver, 1997). It is for this reason that the multicollinearity diagnostics with VIF is chosen when analyzing the multiple regression models. The outcome revealed in Table 5.6 displays the presence of a multicollinearity problem as the national ownership variable denotes a high VIF (10.00) and low tolerance (0.10). Due to the issue of multicollinearity, the variable national ownership is therefore excluded (Silver, 1997; Hair et al, 2010).

Table 5.6
Variance Inflation Factor

Model (Constant)	Collinearity Statistics	
	Tolerance	**VIF**
National	0.100	10.04
GCC	0.869	1.15
Arab	0.825	1.21
Foreigners	0.929	1.08
Size	0.912	1.10
Composition	0.870	1.15
Firm Size	0.220	4.54
Leverage	0.225	4.44
Mean VIF		2.10

5.5 The Coefficients of Multiple Regression Analysis

By means of multiple regressions technique, this section elaborates the discussion and analysis of relationships between a firm's financial performance which is depicted by the dependent variables of ROA and ROE and the independent variables of GCC, Arab, foreigners, board size, board composition and control variable (firm size and leverage). In Table 5.7, the analysis of multiple regressions with the dependent variable of ROA is illustrated.

The outcomes are measured by R^2 and this denotes the effect between independent variables and dependent variables. Apparently, it is evident that the independent variables determine 62% of the ROA variance as demonstrated in Table 5.7. According to the R^2 of 58%, it can be ensured that above 50% of the relationship with ROA can be determined by the six independent variables while the remaining 50% of the impact with ROA is determined by other factors.

Based on the ROA equation as stated in Table 5.7, if board size increases by one, performance of ROA then decreases by about 0.000. If the board composition percentages increase by one unit, the ROA increases by about 0.155. If GCC increases by one unit, performance of ROA decreases by about -0.015. If the Arab grows by one, then performance of ROA increases by about 0.010. If the foreigners variable increases by one, then performance of ROA too increases by about 0.056. Finally, in relation to control variable; if firm size increases by one, then performance of ROA too increases in

approximately 0.023. Likewise, if leverage increases by one, performance of ROA increases by about 0.041.

Table 5.7
The Coefficients of Multiple Regression Analysis (ROA)

ROA	Coeff	Std. Err	T	P > t	95% Conf	Interval
GCC	-0.015	0.021	-0.690	0.490	-0.057	0.028
Arab	0.010	0.060	0.170	0.866	-0.110	0.130
Foreigners	0.056	0.024	2.350	0.022	0.009	0.104
Size	0.000	0.002	-0.080	0.940	-0.005	0.005
Composition	0.155	0.044	3.550	0.001	0.068	0.242
Firm Size	0.023	0.006	3.610	0.001	0.010	0.036
Leverage	0.041	0.110	0.370	0.712	-0.179	0.261
_cons	-0.254	0.055	-4.630	0.000	-0.364	-0.145
Number of Observation			79			
P > F			0.00			
R-squared			0.62			
Ad R-squared			0.58			

While Table 5.7 illustrates the multiple regression analysis of ROA, Table 5.8 below demonstrates the output of multiple regression analysis in relation to ROE as the dependent variable. The outcomes are measured by R^2 in which the effect between the

independent variables on the dependent variables are highlighted. It is apparent that 42% of the ROE variance as displayed in Table 5.8 is determined by the independent variables. According to the R^2 of 36%, it is thus concluded that beyond 35% of the relationship with ROE are determined by the six independent variables while the remaining 65% of the impact to ROE is determined by other factors.

Based on the ROE equation in Table 5.8, it is discovered that if board size increases by one, then performance of ROE decreases by about -0.001. In the case where board composition percentages rises by one unit, ROE then increases by about 0.202. It is noted that if GCC increases by one, then performance of ROE decreases by about -0.067. If Arab increases by one, performance of ROE thus increases by about 0.085. If the variable foreigners increase by one unit, then ROE performance too increases by about 0.084. Likewise with the control variables, if firm size increases by one, then performance of ROE too increases by about 0.037 and if leverage increases by one, performance of ROE similarly decreases by about -0.270.

Table 5.8
The Coefficients of Multiple Regression Analysis (ROE)

ROE	Coeff	Std. Err.	T	P>t	95% Conf	Interval
GCC	-0.067	0.035	-1.880	0.164	-0.137	0.004
Arab	0.085	0.100	0.840	0.401	-0.116	0.285
Foreigners	0.084	0.040	2.080	0.041	0.004	0.164
Size	-0.001	0.004	-0.210	0.836	-0.009	0.007
Composition	0.202	0.073	2.760	0.007	0.056	0.348
Firm Size	0.037	0.011	3.480	0.001	0.016	0.059
Leverage	-0.270	0.185	-1.460	0.148	-0.638	0.098
_cons	-0.091	0.092	-0.990	0.325	-0.274	0.092
Number of Observation				79		
P > F				0.00		
R-squared				0.42		
Ad R-squared				0.36		

5.6 Discussions

The regression results of ROA, ROE and governance variables, control variables and performance variables are displayed in Table 5.3, Table 5.4, Table 5.7 and Table 5.8. In the following paragraphs, the findings are tallied with the hypotheses to see if the hypotheses are supported or rejected.

5.6.1 Hypothesis 1

Based on Table 5.3 and Table 5.7, this study discovers that board size and ROA which is 0.038 is negatively related and it shows an insignificant correlation between board size and ROA as the P-value is 0.940. Based on Table 5.4 and Table 5.8, this study discovers that board size and ROE is negatively related which is 0.023 and it shows an insignificant association exists between board size and ROE as the P-value is 0.836.

Aligned to the first objective which intends to investigate how board size and firm performance are related, the findings of this study in relation to H1 reveal that board size and firm's performance is insignificantly associated.

This study finds that the number of board of directors is insignificantly associated to firm's ROA and ROE. Previous studies too discover similar findings. Chaghadari (2011) finds discovers an insignificant association between the size of the board and the ROA and ROE of Malaysian firms. Topak (2011) assesses how board size and firm's performance is associated in Turkey but it appears that the two variables are not related. Similar result is also found in Ghabayen's (2012) study which is based in Saudi Arabia.

Shakir (2008) reveals that it is not always the case that board size reflects efficiency. If the board members possess suitable experience and also knowledge, it is thus essential to validate the effectiveness of the board functions. Guest (2009) argues that there is a possibility that the relationship between board size and performance may vary due to a variety of foreign institutional characteristics and firm precise characteristics. It can thus be determined that the way a board functions are dissimilar due to variances in the firm's background. Thus, the predictable relationship between firm's performance and board size can be altered.

Therefore, the findings uncover that board size is not a crucial mechanism that affects a firm's performance. This advocates that in Dubai listed firms, an optimal number of board members is not common and this likely results in the lack of communication, coordination besides causing decision making problems.

5.6.2 Hypothesis 2

As shown in Table 5.3 and Table 5.7, it is apparent that ROA and board composition is positively related (0.355). This implies that board composition and ROA is significantly related with a P-value of .001. Based on Table 5.4 and Table 5.8, this study finds that ROE and board composition is positively related by 0.355 and this denotes that board composition and ROE is significantly associated was the p-value is .000. In relation to the second objective that seeks to examine the relationship between board composition and firm's performance, the presence of a relationship between firm's performance and board composition exists. This study unveils board composition and firm's performance are significantly related and thus the second hypothesis is accepted.

Akin to the study conducted by Kosnik (1987) and Kyereboah-Coleman and Biekpe (2005) where board size and performance is positively associated, this study too provides a consistent finding in line with the aforementioned studies. Therefore, the findings of this study is in consonant with a several other studies employing the use of agency theory in which a relationship is evidential between the two levels of measures, board independence and firm's performance (Baysinger & Butler, 1985; Daily et al., 1993; Klein, 1998; Pearce & Zahra, 1992). The researchers reveal that the affluent and well-performed firms will most probably decrease the independence of their board.

5.6.3 Hypothesis 3

In accordance to Table 5.3 and Table 5.7, this study uncovers that GCC and ROA which is 0.034 is negatively associated and it shows insignificant relationship between GCC and ROA as the P-value is 0.490. Based on Table 5.4 and Table 5.8, this study discloses that GCC and ROE which is -0.085 is negatively related and it shows insignificant relationship between GCC and ROE with a p-value of 0.164.

In reference to Table 5.3 and Table 5.7, this study finds that Arab and ROA which is 0.032 is positively related while it reveals an insignificant relationship between Arab and ROA with the P-value of 0.866. Based on Table 5.4 and Table 5.8, this study discovers the presence of a positive relationship between Arab and ROE which is 0.062 though it demonstrates an insignificant relationship between Arab and ROE with P-value of 0.401. The Arabs own insignificant percentage of shares and this signifies that their voting power in the board is comparatively weaker and they hence play insignificant roles in firm strategy.

Based on Table 5.3 and Table 5.7, this study reveals that foreigners and ROA which is 0.339 is positively related and a significant relationship between foreigners and ROA is also evident based on the p-value of 0.022. Drawn from Table 5.4 and Table 5.8, this study discovers that a positive relationship between foreigners and ROE which is 0.307 is presence and this is followed by a significant relationship between foreigners and ROE with the P-value of 0.041.

This result is analogous to Doms and Jensen's (1995) research in which they discover that foreign firms in the US are more productive than domestic firms. Several scholars too have assessed how foreign ownership is linked to firm's performance and they reveal

that the targeted firms are usually situated in an emerging market while the acquirers are firms acquired in the developed market (Aitken & Harrison, 1999; Andrade, Barra, & Elstrodt, 2001; Arnold & Javorcik, 2005; Perez Gonzales, 2004; Petkova, 2008).

Nonetheless, the literatures studying the impact of foreign ownership and firm's performance in the Arab world remain scarce. Naceur, Ghazouani, & Omran (2007) investigate 95 firms in Egypt, Morocco, Tunisia and Turkey and they find that foreign ownership and profits and output are positively associated.

In the study conducted by Djankov and Murrell (2002) to examine the relationship between ownership structure and firm's performance, it is learnt that foreign ownership is beneficial in the event of improving and restructuring firm's performances.

With references to Table 5.3 and Table 5.7, this study discloses that firm size and ROA is positively associated which is 0.7144 and it shows that firm size and ROA is significantly related with P-value of 0.001. Based on Table 5.4 and Table 5.8, this study discovers that firm size and ROE is positively associated which is 0.526 and it shows that an important association between firm size and ROE with the P-value of 0.001 exists.

Furthermore, the size of the firm happens to be positively associated to firm performance (ROA and ROE). As the control variable, firm size and firm's performance is positively and significantly related. This suggests that firm size determines the performance of a firm due to the economies of scale. Hence, firm's performance of larger firms is also better. Although this is inconsistent with the studies conducted by Aljifri and Moustafa (2007) and Ghazali (2010), it on the other hand, is congruent with the study conducted

Kyereboah-Coleman (2007). Watts and Zimmerman (1986) shed light to this and describe that according to the political cost theory, larger firms experience increased political pressures. Hence, in the effort to prevent the interference from political parties, larger firms have to increase their performance.

This situation reflects that firms independently create their value in line with the economy of scale (Bøhren & Ødegaard, 2003). In addition, larger firms in Dubai possess more resources because their managers are usually more skilled and competent as compared to medium-size and smaller firms. This factor improves the efficiency of larger firms in Dubai when attracting investors and when increasing the value of their firms.

In line with Table 5.3 and Table 5.7, this study discloses that a positive relationship between leverage and ROA which is 0.643 exists although it finds insignificant relationship between leverage and ROA with the P-value of 0.712. Based on Table 5.4 and Table 5.8, this study discovers that leverage and ROE which is 0.398 is positively related while an insignificant relationship between leverage and ROE is observed based on the P-value of 0.148. This signifies that increased access finance to the firm has negative influence on firm's performance (Guner et al., 2005). Also if a firm has high level of debt, firm's performance deteriorates. This regression result is congruent with past researches (Abor & Biekpe, 2006; Berger et al., 1997; Mir & Nishat, 2004; Brick, Palia & Wang, 2005; Guner et al., 2005; Hovey, 2010;; Welch, 2003). In accordance to the findings of this study, it is concluded that leverage does not influence and motivate managers' ways of utilizing resources.

5.7 Chapter Summary

The results of this study are measured through a variety of tools, and the results are discussed and presented in this chapter. In order to validate if the data corresponds to the multiple regressions assumptions, both the correlation and regression analyses is conducted. The issues with regards to normality and multicollinearity tests are also considered.

This study provides the evidences that board size and firm performance (ROA and ROE) is negatively insignificant. Therefore, this study reveals board composition and ROA and ROE is positively associated and at the same time significant. In terms of ownership structure, this study uncovers that GCC and ROA is negatively related though it is not significant. On the other hand, GCC is associated with ROE negatively. Furthermore, this study finds that the relationship between Arab and ROA and ROE is positive though insignificant. The relationship between foreigners and ROA and ROE appears to be positively and significantly associated. As for the control variables, the finding demonstrates a positive association between firm size and ROA and ROE and a significant correlation while the association between leverage and ROA is positive and insignificant and negative and insignificant with ROE.

Table 5.9
Summary of the Hypothesis Results

Hypothesis	Relationship	Findings
HI	Between board size with ROA	Negative and Insignificant
	Between board size with ROE	Negative and Insignificant
H2	Between board composition with ROA	Positive and Significant
	Between board composition with ROE	Positive and Significant
H3b	Between GCC with ROA	Negative and Insignificant
	Between GCC with ROE	Negative and Insignificant
H3c	Between Arab with ROA	Positive and Insignificant
	Between Arab with ROE	Positive and Insignificant
H3d	Between Foreigners with ROA	Positive and Significant
	Between Foreigners with ROE	Positive and Significant

CHAPTER SIX

CONCLUSION

6.1 Introduction

In this study, the relationship between ownership structure (national, foreigners, GCC and Arab), a set of board characteristics (the board and board composition) as the independent variables, firm size and leverage as the control variables and firm's performance (ROA and ROE) as the dependent variables in the firms enlisted on the Dubai financial markets of year 2014 are investigated. The sampling of this present study comprised of 79 firms which are listed on the Dubai financial market in 2014. The first section shows the summary of this study while the second section expounds the contribution of this research. Limitations of this study are discussed in the third section and the recommendations for future researches are highlighted in the last part.

6.2 Summary of Study

In examining the effects of ownership structure (namely, foreigners, GCC and Arab) and board characteristics (board size and board composition) on firm performance (ROA and ROE) of companies listed in Dubai financial markets, this study generally achieves its objectives. This study has also achieved its fundamental objectives; to explore the relationships between board characteristics, ownership structure and firms' performance (ROA and ROE) in Dubai listed firms for the year 2014. Banks and other type of financial institutions are not included as the sample of this study.

It is determined that firm performance and board size is insignificantly related. This is consistent with previous researches where it is learnt that firm's financial performance and board size is insignificantly associated (Chaghadari, 2011; Topak, 2011; Ghabayen, 2012). Furthermore, based on the findings, it is discovered that financial performance among Dubai listed firms is not enhanced by board size.

Meanwhile, board composition and firm performance portrays a significant association. This is in consonant with the studies conducted by Kosnik (1987) and Kyereboah-Coleman and Biekpe (2005) in which it is realized that an important association exists between firm financial performance and board composition. Furthermore, these researchers affirm that firms that are performing greatly are more likely to reduce board independence.

This study shows that foreign ownership and firm performance is associated. This is coherent with the studies of Aitken and Harrison (1999), Andrade et al. (2001), Arnold and Javorcik (2005), Perez-Gonzales (2004) and Petkova (2008) in which the targeted firm refers to firm located in the involving markets while the acquirer firm can be found in the developed market. The GCC and Arab ownership however is irrelevant with firm's performance.

The two control variables in this study (firm size and leverage) along with the independent variables are analyzed in order to determine the effects that these control variables have upon firm performance. The regression analysis in Table 5.7 and Table 5.8 depicts that firm size and firm financial performance has a positive association and thus, the size of the firm is crucial in determining a firm's financial performance. This finding is coherent to past studies. For instance, Prevost, Roa, & Hossain (2001), Hsu and Liu

(2007) and Pudjiastuti (2007) maintain that the positive relationship that exists indicate that the size of a firm is associated to a firm's financial performance. Hence, the finding reckons that larger firms tend to perform better.

Lastly, the regression analysis in Table 5.7 and Table 5.8 exhibits that leverage is not attributed to firm performance. This indicates that firm's performance declines in line with debt. This study is congruent with past researches where a negative influence between leverage and firm performance is discovered (Abor & Biekpe, 2006; Guner et al., 2005; Hovey, 2010; Mir & Nishat, 2004; Brick et al., 2005). The researchers argue that the enhanced access to finance that directly impacts upon firm performance is insignificant.

In addition, this study determines that three variables (foreign ownership, board composition and firm size) appear to be the solid predictors of financial performance in firms in Dubai. Yet, four other variables (Arab, leverage, board size, GCC) is weakly associated to firm performance possibly due to the reason that some significant factors of business monitoring and control are nonexistent in addition to inadequate enforcement.

The results of the study are significant to investors, managers, regulators and researchers who are beginning to develop the formal monitoring infrastructures so as to increase investors' confidence and to attract appealing foreign investments. The insignificant and irrelevant findings of some the controlling mechanisms and firm's performance denotes that these are the obstacles that firms in the developing market may possibly face when instigating and promoting a higher CG standards.

The results of this study expand better understanding on how CG mechanisms are impacting firm performance. The study supplements the scope of existing studies and the

impact of a variety of firm-specific variables that are affecting firm's performance in Dubai. This is a helpful tool for those who are using financial information to measure the impacts of numerous variables in the assessment on how to improve a firm's value.

The current study demonstrates that it is essential to encourage the implementation of effective external and internal CG mechanisms among policy makers in Dubai. In the effort to embrace global CG standards, firms in Dubai thus needs to implement CG. Likewise, by effectively implement the codes of CG, the Dubai financial markets are most likely to improve in terms of its effectiveness, efficiency and governance. Therefore, listed firms need to be committed and this is achievable by means of refining the regulation and enforcements framework.

6.3 Limitation and Future Research

Limitations of this study are discussed and recommendations on the directions for future research are subsequently discussed.

6.3.1 Limitations of the Study

The results of this study provide numerous insights that may be of interests to scholars, government, shareholders, policy-markets, institutions investigations and other also relevant stakeholders.

Primarily, this study is concentrated only on Dubai listed non-financial firms, at the same time including other financial firms too. Consequently, the validation of the conclusion

might not be applicable for financial firms and other firms that are not enlisted on the stock market.

Also, this study uses only the accounting measure of ROA and ROE to measure firm's financial performances and thus other measurements are disregarded. This study does not take into consideration other methods of performance measurements such as Tobin's Q and return on investment.

Next, the limitation that this study does not include several other aspects such as CG features of ownership structure (managerial ownership, ownership concentration, government ownership and institutional ownership), CEO duality, CEO tenure, committee size, board, auditor quality and audit committee process is also considered. The limitation of the study is also due to the nature of the collected data in the form of annual report which may not be disclosed in other countries.

6.3.2 Suggestions for Future Research

It is suggested for future studies to overcome the limitations of this study. Future researches can explore unlisted firms and financial firms by employing various methods. Future studies can also consider to extend the duration of their studies or to conduct longitudinal studies to learn both the short and long term effects.

Furthermore, further research can also focuses on including completely different aspects of board of director variables, including board characteristics, remuneration and nominating committees, the regularity of meeting among board directors and the directors skills and capabilities. Besides that, it is also suggested that future researches are conducted in different world countries as the countries differ in business environment,

education cultures, etc. The quality of performances can also be investigated through observation to determine if performance really does improve over time.

Moreover, future researches should include the other measurement of performance such as Tobin's Q, operating cash flows and profit margin. Finally, it is recommended for future research to study the impacts of tax planning upon the firm performance among Dubai firms. It is beneficial to assess the relationships between firm's performance and tax planning because tax environment depicts a valuable situation of firm performance.

It is recommended for future studies to take into account other significant variables such as the number and percentage of external board members, ownership concentration, insider ownership, the presence of audit committee, voting coalitions, product-market competition and other cultural factors. Research can also focuses on the effects of CG mechanisms on the capital structure decisions of Dubai companies. Future research can also consider including a larger sample size and study can be conducted and extended to a longer period of time.

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