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RISK MANAGEMENT COMMITTEE, OWNERSHIP STRUCTURE AND FINANCIAL PERFORMANCE OF PUBLIC LISTED COMPAINES IN SAUDI ARABIA

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Universiti Utara Malaysia

MASTER OF SCIENCE (FINANCE)

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RISK MANAGEMENT COMMITTEE, OWNERSHIP STRUCTURE AND FINANCIAL PERFORMANCE OF PUBLIC LISTED COMPAINES IN SAUDI ARABIA

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ABSTRACT

The role of risk management committee (RMC) under the corporate governance consist of monitoring the risk strategies, policies and risk tolerance level as well as reviewing the sufficiency of risk management policies and framework. Risk management committee performs a very important function in the monitoring of the risk and internal control. Thus, the main objective of the study is to examine the effect of the existence of risk management committee on firm performance of companies listed in Saudi Arabia bursa. In addition, the study also examines the effect of ownership structure of director and family ownership on firm performance. ROA and ROE are used as proxy to measure the firm performance. Sample of the study is based on 40% companies in each industry excluding finance companies. Data were collected from 57 companies in the financial year 2019.The study uses agency theory to predict the relationship. Descriptive analysis shows that only 36% of the sample companies have stand-alone risk management committee. The mean of family ownership is 25.68% and the mean of director ownership is 25.68%. Regression analysis showed that there was no significant relationship between the existence of risk management committees, family ownership and director ownership with firm performance. In addition, the results show that only firm size and leverage the control variables have a significant relationship with firm performance.

Keywords: risk management committee, ownership structure, board composition, firm performance, Saudi Arabia

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ABSTRAK

Peranan jawatankuasa pengurusan risiko (RMC) tertakluk kepada tataurus korporat meliputi pengawalan strategi risiko, polisi risiko dan paras toleransi risiko di samping mengkaji samada polisi dan rangka kerja pengurusan risiko sesebuah syarikat adalah mencukupi. Jawatankuasa pengurusan risiko memainkan peranan yang penting dalam mengawal selia kawalan dalaman dan risiko syarikat. Oleh itu, objektif utama kajian ini adalah untuk mengkaji kesan kewujudan jawatankuasa pengurusan risiko ke atas prestasi kewangan syarikat-syarikat yang tersenarai di Arab Saudi bursa. Di samping itu, kajian ini juga mengkaji kesan struktur pemilikan oleh pengarah dan keluarga ke atas prestasi syarikat. ROA dan ROE digunakan sebagai proksi untuk prestasi syarikat. Sampel kajian adalah berdasarkan kepada 40% syarikat bagi setiap kategori industri tidak termasuk syarikat kewangan. Data telah dikumpul daripada 57 buah syarikat pada tahun kewangan 2019. Kajian ini menggunakan teori agensi dalam membuat ramalan tentang hubungan tersebut. Analisa deskriptif menunjukkan hanya 36% daripada sampel syarikat mempunyai jawatankuasa pengurusan risiko. Purata bagi saham pemilikan keluarga adalah 25.68% manakala purata saham yang dimiliki oleh pengarah syarikat adalah sebanyak 25.68%. Analisa regresi juga menunjukkan tiada hubungan yang signifikan di antara kewujudan jawatankuasa pengurusan risiko, saham pemilikan pengarah dan saham pemilikan keluarga dengan prestasi syarikat. Di samping itu, kajian ini menunjukkan komposisi lembaga pengarah sebagai pembolehubah kawalan mempunyai hubungan yang positif dan signifikan dengan prestasi syarikat.

Kata kunci: jawatankuasa pengurusan risiko, struktur pemilikan, komposisi lembaga pengarah, prestasi syarikat, Arab Saudi

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LIST OF ABBREVIATIONS

ROA	Return on Assets
ROE	Return on Equity
RMC	Risk management committee
VIF	Variance inflation factors
ERM	Enterprise risk management
CEO	Chief executive officer
CFO	Chief financial officer

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CHAPTER 1

INTRODUCTION

1.1.Background of the Study

Every listed company in Saudi Arabia required to release the technique they used to manage risk in their annual report every year. How relevant is a recommendation on risk management and internal control that is made clear in the public listed annual report??

The responsibility of the Director for the management of a company's risk and risk control system. Risk management is characterized as the way and procedure employed by companies to manage or seize a chance to meet their objectives (Amran & Hassan, 2008). Due to the volatility of global economic development, which has a significant effect on business performance in the world, risk management was highlighted. Investopedia (www.investopedia.com) reports that, in addition to other considerations for business model, competitive advantage, management and corporate governance, risk management has become one of the factors considered by investors before making the decision to invest in a company. Directors are the person responsible for the risk management in a business. At least three non-executive Directors and a single director must be the members of the Risk Management Board (RMC) (Kallamu, 2015). That is because directors play a major role in making a decision on behalf of the company before negotiating a business contract or making an investment agreement. So, directors of the companies should have a knowledge and experience about risk management to drive the company‟s performance. The study also recommended that risk management committee must be served by directors that have previous experience in related industries for finance companies (Kallamu, 2015).

RMC's role in corporate governance includes:

1- Controlling the risk tolerance level, policies and the strategies in managing risk.

2- Checking the policies and framework of risk management regarding the sufficiency of controlling mechanism.

3- Recognizing, calculating, managing and controlling risk and the effectiveness of the policies and framework.

4- Ensures that the person who is responsible for monitoring risk is not liable of any activity handling by the person.

The function of risk and internal control monitoring in finance companies was perform by risk management committee (Ng et al., 2013). RMC is responsible for managing risk before entering a new project or makes an investment. The committee also responsible for calculating or forecasting the amount of profit of the organization and also, to make the decision to accept any project, make an investment or enter into a business agreement. The important of separate risk management committee in the public listed companies are seen as a solution to reduce the financial crisis in the companies hence, to enhance company"s performance.

The board can establish a framework about risk management that reviewed periodically and disclosed in the report yearly. Thus, does the establishment of a separate RMC public listed company have a positive relationship with performance?

There is some evidence claims that family businesses have a better performance compare to non-family businesses. A family control business has a higher firm value than non-family control businesses (Amran & Ahmad, 2010). Thus, the current study considers director ownership and family ownership and its relation to performance.

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1.2.Problem Statement

Risks management committee (RMC) becomes one of contributing factors to the new evolution of financial crisis because RMC is saddles with the responsibility to manage risk in the company (Kallamu, 2015). Lack of monitoring activities by the subcommittee becomes highlighted issues that contribute to the performance of the companies. It is aligned with the finding by the previous researchers that the inadequate monitoring function by the RMC leads to the weaknesses of corporate governance mechanism and become one of the factors that contribute to the company‟s performance (Solomon, 2007; Mohamad & Sulong, 2010; Erkens et al., 2012; Kallamu, 2015).

A risk management framework must be periodically reviewed, and the report must be disclosed in the annual report. Awareness about the importance of stand-alone RMC in public listed companies and its relationship with performance should be revealed because most of the companies that are affected by the financial crisis are found unaware of monitoring risk that leads to underperformance of their income (Kashyap et al., 2008). Ownership structure in Saudi Arabian companies mostly concentrated and most shares are owned by the families and owners (Habtoor et al., 2019). As matter of fact, most of the shareholders from family business have relation with each other. The business is inherited from generation to generation. With a significant amount of family ownership, the family shareholders or major shareholders tend to expropriate shares from the minority shareholders in order to have more power and control in the company. Having significant power become benefits for them in term of decision making (Amran & Ahmad, 2010). On different view, previous studies had reported that family firm has higher value compared to non-family firms (Amran & Ahmad, 2010; Kamardin, 2014). Therefore, this current study also examines whether the director and family ownerships do enhance firm performance.

1.3.Research Objectives

The main objective of the study is to examine the relationship of corporate governance mechanism (risk management committee and ownership structure) with the company financial performance among public listed companies in Saudi Arabia. The following research objectives are identified:

1- To examine the relationship between the existences of risks management committee with financial performance of public listed companies in Saudi Arabia.

2- To examine the relationship between ownership structures (director ownership and family ownership) with financial performance of public listed companies in Saudi Arabia.

1.4.Research Questions

This study examines the relationship of corporate governance mechanism (risk management committee and ownership structure) with the company financial performance among public listed companies in Saudi Arabia. This study has proposes to answer two research questions.

1- What is the relationship between the existences of risk management committee with financial performance in public listed companies in Saudi Arabia?

2- What is the relationship between ownership structures (director ownership and family ownership) with financial performance in public listed companies in Saudi Arabia?

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1.5.Significance of the Study

1.5.1 Theoretical Significance

This study‟s goal is to examine the existence of the risk management committee in an organization. This study aims to reveal the Relation of presence of a risk management committee and types of ownership with performance. The study also can create awareness among the directors about the importance of RMC in helping the companies to enhance their performance. The study of the relationship between RMC, ownership structure and performance of public listed companies in Saudi Arabia is significant because the function of the subcommittees in enhancing performance was highlighted. The study also helps the management to increase the monitoring activities in various aspects. Only a few studies regarding RMC had been made by the prior studies worldwide even though, the topic plays an important role in maintaining company‟s performance (Liebenberg & Hoyt, 2003; Beasley, Clune, & Hermanson, 2005; Subramaniam, McManus, & Zhang, 2009; Kallamu, 2015).

Previous research in Saudi Arabia companies had been made on factors that verify the establishment of RMC and on characteristics of RMC in the insurance division for finance sector. So far, the study on the relationship of RMC and ownership structure with performance in another sector has not been widely explored. Along these lines, the current study broadens the understanding of the connection between RMC, ownership structure and performance of public listed companies in Saudi Arabia. This would lead to the awareness of the importance of the existence of RMC in the public listed companies in Saudi Arabia. In addition, this study would serve as a reference material to individuals who wish to further research in the same area of study.

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1.5.2 Practical Significance

For practical contribution, this study will help the investor and stakeholder to make a decision on investment by looking at the firm that has lower risks with higher profitability. The study also can provide regulatory authority information explaining the importance of the existence of RMC among public listed companies that can improves confidence level of the investors as well as enhancing firm performance. The study also can be used by the regulators in formulating the future policy by creating new rules about the RMC existence that have a significant effect on the performance of the firm. The new rules can be applied to amplify monitoring and safeguard and increased confidence level of the investors in the area. The study can create awareness among the director about the important of RMC to company‟s performance as well as helping them improving their monitoring functions. It can be done by enhancing the risk function listed under the corporate governance act. The coordination and communication among the subcommittee also can be improved by enhancing the risk function.

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1.6.Scope and Limitation of the Study

This study focuses on examining the relationship between corporate governance mechanism (existence of risks management committee and ownership structures) with company‟s performance for public listed companies in Saudi Arabia. The study sample was randomly chosen comprising 40% of each industry/sector category excluding finance and distressed companies, in TADAWAL the stock market of Saudi Arabia for the year 2019. This study used secondary data available from the annual report, Thompson database.

In term of risk management, the variables tested in the study is the existence of RMC in the companies and for ownership structure, this study examines two types of ownership structure which are director ownership and family ownership. For the financial performance, Return on

Assets (ROA) and Return on Equity (ROE) was used to measure firm performance. ROA is used to measure the performance because it shows how efficient is the assets was used to generate earnings by management. In other words, it is shows how profitable a company is relative to its total assets. ROE is used to measure a company‟s profitability. ROE shows the amount of net income a company generates with its shareholder's equity.

1.7 The Organization of the Study

This thesis is divided into five chapters. Chapter one provides an introduction and background of the research. It provides introduction on risk management committee and ownership structure hence issues related. Other issues discussed in this chapter are the problem statement, research objective, research questions, problem statement and significance of the study. Followed by chapter two that summarizes the literature about risk management committee and ownership structure and how its influence the firm financial performance. Chapter three provides the theoretical framework, hypotheses development, variables measurement, data collection technique and data analysis technique used in this study. Expectations of the result, and model specification used also explained in this chapter. Then, chapter four shows the results of the study. Lastly, chapter five summarizes the findings and suggests issues for future research.

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CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Relevant analysis of corporate financial results, risk management committee and ownership structure based on managers 'ownership and family ownership are given in this chapter. The first chapter deals with studies to analyze the governance element that affect corporate efficiency. The second chapter discusses the theoretical structure based on agency theory, describing how these theories relate to the enhancement of company efficiency. Finally, the fourth section discusses RMC literature, director's ownership, family ownership and empirical evidence of the contributions of these factors to corporate success.

2.2 Determinants of Financial Performance

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Company performance is described as the company's success. Every company aims to boost its annual output to enhance its success level. Business performance can be measured by variables that include profitability, efficiency, development and customer satisfaction. Financial metrics are used to calculate firm power, weaknesses, opportunities and challenges in measuring firm efficiency. Residual revenues (RI), asset returns (ROA), dividend rates (ROE), returns on equities (ROE), return on investment (ROI), price / earnings ratio, market capitalization, and the rise in sales are the financial metrics usually used in measuring results. (Barbosa & Louri, 2005). Previous research showed the number of factors that can influence firm performance.

2.3 Control variables

The relationship between financial performance and board composition, board governance structure were examined by (Van Hoof, & Park, 2017) and found that both variables consistently contributed to financial performance.

Vargas & Galindo-Dorado (2018) notes that a company with a larger board size has more experience and information than a company with a smaller board size and thus can improve its firm efficiency. The analysis found that the larger board can track business results more efficiently and can also manipulate a new member.

On the other hand, previous studies have shown a negative association between firm performance and board size in some other countries. In Saudi Arabia, (Alshetwi, 2017) analyzed the relationship between firm performance and the board size of the small and medium firms. In addition, in Singapore, Mak and Yuanto (2002) researched how Tobin's Q tests the executive board size-compatibility and market performance and found a negative relationship. The research conducted by (Yusoff, & Idris, 2012) concentrated on the corporate governance components such as, for instance, the scale, proportion of non-leaders (INEDs) and firm performance management system as measured by EPS and ROE from 2009 to 2011. The report also included the study's findings. The findings of this research correspond to a previous study which found that certain components of corporate management, such as board of directors, independent managers, Board characteristics, Board of Directors 'structure, audit committee and also the size of the Board (Abdullah, 2004; Cosken and Sayiliar, 2012; Shukeriet al., 2012) affect firm efficiency.

The study by Shukeri et al (2012) on firm performance was performed using ROE, with CEO duality, ethnic diversity, managerial ownership, diversity of gender, board size, and board independence using ROE. The result reveals that the performance with ethnic diversity and board size has a positive relationship, while the relationship between freedom and

performance was negative. There was no major connection to company success for other attributes such as CEO duality, management control and gender diversity.

In contrary, a positive relationship between firm performance and directorship was discovered by (Jaafar et al 2019).

The collision with firm performance of RMC attributes was investigated by Kallamu (2015). The result showed that the ROA and the independent RMC directors are significantly negative. It can be inferred that a committee of majority independent directors is able to raise market value favorably, but that it has a negative effect on accounting returns. The result also indicates that the positive effect on increasing accounts performance will improve the company's market value as well as accounting profits with the presence of independent committee chairs.

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2.4 Existence of Risk Management Committee (RMC)

Risk management means that companies use a strategy or method to resolve or exploit an opportunity to achieve their goals (Amran, & Hassan, 2008). The role of the audit committee in risk monitoring can be a delegate in the risk management committee, owing to the incertitude of international economic growth which has a major impact on global business results. The committee will concentrate more on corporate risk management. RMC plays a key role to track business efficiency in finance companies. (Kallamu, 2015).

Currently, there are number of studies that emphasize on the relationship between RMC and financial performance (Subramaniam, McManus, Zhang, 2009; Kallamu 2015; Beasley, Clune, & Hermanson, 2005;).

For the organization that has been reporting on the use of enterprise risk management (ERM) in the business, (Lechner & Gatzert 2018) studied the implementation determinant of Enterprise Risk Management (ERM). The examination took place by naming a chief risk

Officer (CRO) to introduce and coordinate the ERM program. The finding indicates that businesses with a larger leverage are more likely to obtain a CRO.

The findings are consistent with the hypothesis that companies use CROs to reduce the asymmetry of knowledge about the actual and expected risk profile of the company.

The factors relate to the process of the ERM introduction of 123 U.S. organizations are being investigated by (Gatzert & Martin 2015). The result has shown that the ERM process is positively linked to the nature of the independence of the Board, the chief risk manager, the CEO and CFO, obvious help to ERM, the presence of a broad four auditors, education, banking and insurance entities and corporate size.

The implications of RMC attributes to the financial performance of firm is investigated in Kallamu (2015). This shows that the presence of independent directors in RMC negatively affects. Majority independent directors in the committee positively affects the company's business valuation but negatively effect ~~on~~ the accounts returns. The result shows also reveals that the involvement of a committee chair could positively boost accounting returns, whereas the previous management experience of managers will improve financial returns and increase market value.

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2.5 Ownership Structure

Berle and Means have underlined a review of the ownership system since 1932. In the formative goals of firms, shareholders 'wealth and administrative efficiency, an analysis of ownership structure is worthwhile (Jensen, 2000). Each manager is aimed at maximizing the value of the business. The ownership structure involves widely owned companies and concentrated ownership or companies with managed shareholders. A large-scale business has no major control power. Controlling power firms are categorized into broad-based companies and widespread financial institutions, families and categories of state (Claessens, Djankov, & Lang, 2000; La Porta, Lopez-De-Silanes, & Shleifer, 1999). La Porta et al.'s (1999) emphasizes the importance of family ownership. The research was performed in 27 countries worldwide with 20 biggest publicly traded firms. The result indicates that most businesses are confidential and highly concentrated.

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2.5.1 Director Ownership

Manager ownership means the number of stocks owned by managers with a total number of issued shares. Conflicts between managers and owners can be alleviated by organization theories, which can enhance efficiency by reduced conflicts. The significant part of the business share held by the manager indicates that the owner has extra opportunities to improve efficiency so that performance can be improved. According to agency theory, managers prefer to reduce the costs of the companies and improve their efficiency (Filatochev et al, 2005; Krivogorsky, 2006).

Prior literature concluded that the relationship between director ownership and firm performance are mixed. The monitoring of compensation systems by 557 samples chosen randomly from the production companies for the year 2014 is analyzed by a study conducted

by Le et al (2018). The result shows that the amount of equity owned by managers is strongly related to firm performance and the share of their compensation based on equity.

In contrast, Shukeri et al. (2012) examined ROE-functioning, with CEO duality, ethnic diversity, managerial control, gender diversity and board size characteristics using ROE. The result showed a positive relationship between performance and board size and racial diversity whilst negative relationship between board independence and performance emerged. No important impact on firm performance had been identified for other characteristics such as CEO duality, managerial control and gender diversity.

In this analysis, company performance is proxied by business computation (market book value market, MTBV) In this analysis, company performance is analyzed by Kamardin et al. (2016). The result reveals a nonlinear relationship with MTBV using a quadric function between director's and foreign shareholders. The director's ownership therefore has a negative relationship that shows the lower stake's firming impact. The director ownership therefore has a good relationship, which means that the alignment effect is at the higher level.

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2.5.2 Family Ownership

Family ownership or family-run company is the world's most common corporate structure. Family members in the United States represent over 80 per cent of all businesses and pay for one-third of the S&P 500.

Family companies become an important element in the Saudi economy which makes a contribution to Saudi Gross Domestic Product relatively.

Earlier study records mixed findings on family ownership and performance. The study of the 20 biggest publicly traded companies in the 27 most affluent countries in the world by La Porta et al. (1999) illustrated the value of family ownership. The findings indicate that most firms are proprietary and are strongly concentrated in ownership structures of listed firms.

The Wiwattanakantang (2001) study explores the impact of controlling shareholders on results through a specific data base from Thai companies. The study found that the presence of the managed shareholders is related to higher output in measurement of sales-asset ratios and ROA by accounting measures. Inversely, the presence of the controlling shareholders has a negative performance effect. Therefore, the data has also indicated a much higher output among family-owned businesses. Organizations with extra shareholders and foreign owned companies, also have more ROA, than organizations with no controlling shareholder.

Al-Ghamdi and Rhodes (2016) Evaluate the performance of Saudi stock exchange-listed firms. Tested a sample of 792 company for the years 2006 to 2013 among 11 industry and compared family and non-family firms. The findings showed no association between business efficiency (ROA) and ownership structure.

Sample Hong Kong companies comprised of a total of four hundred and twenty-one firms listed in the stock sector are investigating the impact of family ownership on the efficiency and valuation of a company, dividend policy and the conflict between corporate governance, reputation and efficiency dividend payments. The findings show that ROE, ROA and the market-to-book ratio have not been positive. Hence, there was also a negative relationship between CEO duality and results. The study also found little connection between family ownership and policy on dividends.

Small business dividend payments also show little performance sensitivity. The board of directors 'composition, eventually, has no effect on financial performance and dividend policy primarily for small market capitalization firms. An analysis using proxy data collected by Fortune-500 companies between 1994-2000 was completed by Villalonga and Amit (2006); this proved the importance of family property only when the founder is a CEO or chairman with a hired CEO who has contributed to the company. The findings suggest that

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the conventional case of the owner-manager in nonfamily companies is precious rather than the case in founding-CEO firms between family and non-family shareholders. Nevertheless, in descendant-CEO firms, the argument among family and non-family shareholders is more valuable than the argument between proprietor-manager and non-family companies.

Gama and Rodrigues (2011), through a global collection of data gathered from 208 companies in the Milan Stock Exchange (MSE) over the period 2000-2006, provide an comprehensive overview of the governance positions of corporate boards, various block owners and institutional investors in corporate performance for publicly listed family-controlled companies. Family businesses have expanded their transparency as non-family businesses. Therefore, a significant participation from the family in managers tends to rise management opportunism. The results also inspire an alliance of major shareholders and a firm interest coalition. The negative impact of family ownership on IC output is shown. The findings are important in tracking the competence of value-forming assets for capital market regulators.

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2.6 Agency Theory

Agency theory is a principle that is used to explain and resolve issues in the relationship between business principals and their agents. Most commonly, that relationship is the one between shareholders, as principals, and company executives, as agents.

The partnership between the agency is defined as an arrangement in which one or more directors (the agent) fit in to perform duties on behalf of the management. In order to satisfy the contract, the agent shall delegate the authority to make decisions on behalf of the principal (Jensen & Meckling 1976). According to the theory of the business, owned and operated by a management (agent), a separate purpose may lead to conflicts of interest from its shareholders (the principles) (Fama & Jensen 1983; Jensen & Meckling 1976).

The control power is often misused by the agent, partly because of moral hazard and negative selection resulting from asymmetry of knowledge. The main purpose of agency theory is to resolve the issues created by the membership of the organization. According to Heinrich (2002), the Organization will emerge from three parties: 1) from shareholders to the Top Management; 2) from controlling to the minority and 3) from shareholders to creditors. The principal and agent must increase expenditure in information systems and control system to manage the problem associated with information asymmetry (Jensen & Meckling, 1976; Fama & Jensen,1983). The control mechanisms for these parties are the win - win scenario, whereas the agent will pay for the expense of the business if the valuation of the company is reduced by the principals on the base of the risk of adverse selection, moral hazard and shirking (Alchian & Demsetz, 1972; Jensen & Meckling, 1976). Agency theory therefore applies primarily to researchers 'analysis of publicly listed companies' management and the basis of the process of applying corporate governance in publicly listed companies. Fama and Jensen (1983), in their article titled "Separation and ownership and control," addressed the role of the board of directors as a surveillance instrument. The director's main function is to organize the problem and to control the position of managers in supervision. The board assigns its responsibilities to its committee, and the audit committee and the risk management committee in order to make monitoring work effectively. The transition of risk management responsibility to RMC was intended to improve the company's internal risk control. One solution to the question of information asymmetry is to increase the internal control function that has been delegated to RMC.

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2.7 Summary

This chapter concentrates mainly on the previous studies which examined the financial performance factors. The studies show factors that influence corporate financial performance (for example, organizational size, board structure, leverage and board size, independence percentage of the director, family ownership, director ownership, risk management committee, board diversity, and ethnic diversity). This research shows that the restricted analysis used variables in risks management as describing parameters of corporate financial performance.

It also focuses on ownership structure literature which, after the 2012 review of Corporate Governance Code, considers ownership structures as part of a significant corporate governance framework. The Agency's viewpoint offers greater insight into the factors to ensure that RMC and ownership arrangement work efficiently to boost financial efficiency in businesses. The key factors to assess organizational success are RMC, manager ownership and family ownership. The study of director's and family ownership empirical studies found a positive relationship with the financial results of firm. A research by the RMC found a favorable link to corporate success in finance companies. This work therefore anticipates that after the revision of the Corporate Governance Code, the firm's financial results would have favorable relationships with RMC.

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CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

Chapter 3 describes the research structure and methodology. The theoretical framework is discussed In Section 3.2, section 3.3 explains about the hypothesis‟s development, section 3.4 addresses variables calculation followed by Section 3.5 of data collection. The data analysis is outlined in section 3.6. Finally, the entire chapter is summarized in Section 3.7.

3.2 Research Framework

Figure 3.1 describes the relation between independent variables and the dependent variable in the theoretical context. This study indicated that the impact on the performance of the company of a risk management committee and variables on the ownership structure (director ownership). The following section addresses each of the variables and the creation of hypotheses.

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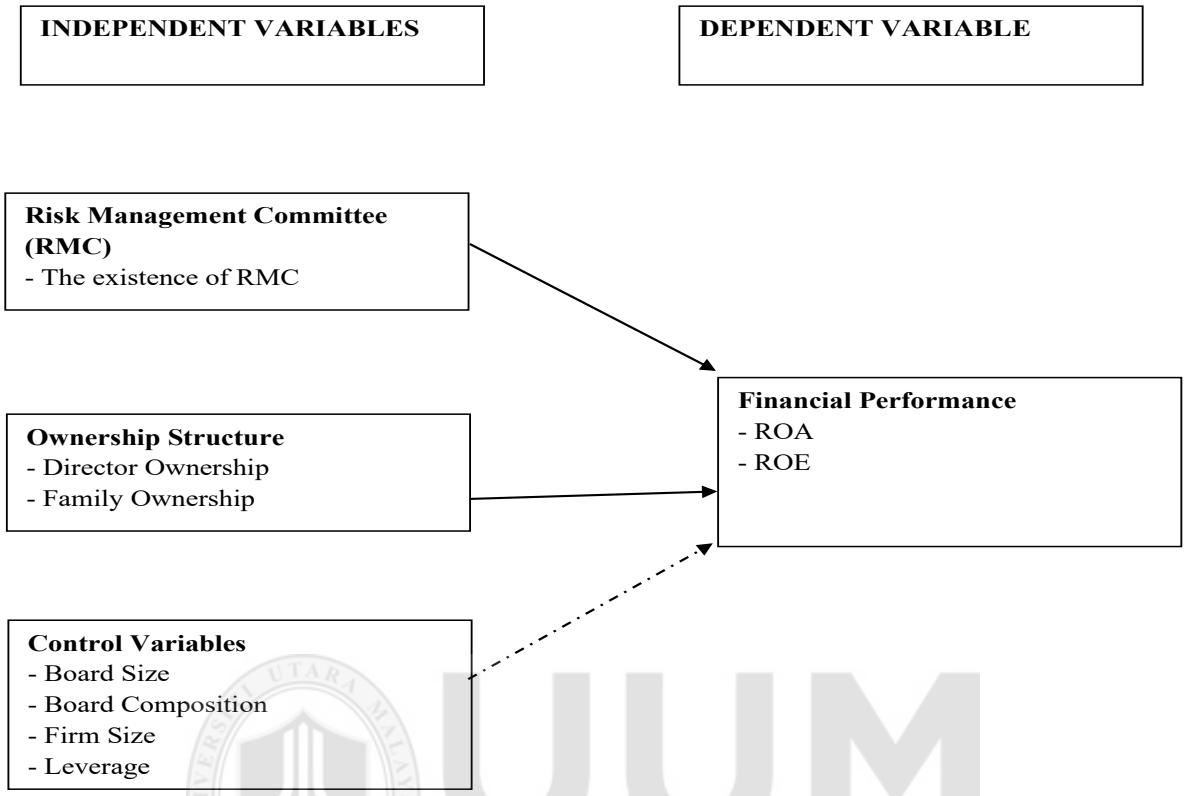

Figure 3-1 *Research Framework*

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3.3 Hypotheses Development

The study of three independent variables which would affect the dependent variable has produced three hypotheses. Prior to that, risk management boards have demonstrated that there are positive relations between risk management boards in a listed public company, the independence of audit boards, the size of the audit committee and the vigilance of the audit board, and businesses with specific variables, such as firm size, sophistication of business operating operations, and the use of Big Four risk firms (yatim 2009). The sample collected was analyzed for the presence of RMC and the result was a standalone RMC of just 43 out of

154 companies represented 28%. Based on this study, the variable was evaluated according to hypotheses.

3.3.1 Presence of Risk Management Committee

The Risk Management Committee (RMC) is the one of the board committee requisites for finance companies. The presence of RMC is mandatory for finance companies, requiring at least three non-directorates and headed by independence directors. The establishment of RMC is not compulsory for non-financial companies. The RMC's functions to track risks in management usage were typically performed by the Audit Committee as the result of the voluntary establishment of the RMC in non-financing publicly listed companies (Tao & Hutchinson, 2013). Since the regulatory authorities have increased their roles in the audit committee, the need for stand-alone RMCs is important in order to miss the companies' risk management activities (Yatim, 2009). The publicly traded companies still lacked an understanding of the value of RMC.

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This is because there are only 21 samples of over 57 publicly traded companies with their own RMC, which accounts for 36%. This is because the RMC relation with success is not studied. The audit committee does not want to have independent RMCs in public listed companies because the audit committee is responsible for monitoring the risk. Prior to this, the Audit Committee is responsible for the management of risk. However, the need to handle risks that are the need of RMC to look at risks is increased with the latest evolutions and developments in financial products and a shift in definition from conventional financial institutions to newly branded financial institutions (Merton, 1995). If the businesses have an independent RMC, the risk is well taken. The next hypothesis has therefore been established:

H1: There is a positive significant relationship between the existence of RMC and financial performance of public listed companies

3.3.2 Ownership Structure (Director Ownership)

Ownership by the director shall be specified as the number of shares held by the directors (direct and indirect shares) dividing the total number of shares issued by them. Managers ownership is the number of shares held by CEOs and managers and includes their perceived interest in the holdings of shares. The shares held by the managers that serve as a direct incentive for managers to share interests with the shareholders because their success in the business is also influenced by their fortune (Jensen & Meckling, 1976). Disputes between management and owners can be decreased by management ownership (Jensen & Meckling, 1976). Financial performance can be accomplished by balancing control of managers with a large share of an organization that allows managers to optimize corporate output. Theory indicates that director attendance has continued to decrease and increase agency costs (Han & Suk, 1998; Ang, Cole & Lin, 2000; Filatotchev et al., 2005; Krivogorsky, 2006).

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There mixed finding on empirical evidence of the relationship between managerial ownership and firm performance (Hamdan & Elali, 2015). Filatochov et al, (2005), Krivogorsky (2006) found that the agency expected the existence of manager ownership appears to reduce the cost of the organization and increase performance, meanwhile, Shukeri et al (2012) revealed that the shareholding by the directors was not statistically important and have a negative association with performance. Kamardin et al (2016) disclosed that ownership by directors is negatively linked with performance. Han and Suk (1998), Ali, Salleh and Hassan (2008) recorded a positive partnership, which contributed to an increase in the ownership of managing directors resulted in better financial performance.

A positive association between director ownership and corporate performance is hypothesized as follow:

H2: There is a positive significant relationship between director ownership and financial performance of public listed companies.

3.3.3 Ownership Structure (Family Ownership)

Family ownership is defined as the number of shares owned by the directors who are familiar with the total number of shares issued (direct and indirect shareholdings). The share owned by the family must reach a certain threshold in order to gain control of the members of the corporation (Anderson & Reeb, 2003; Villalonga & Amit, 2006). The pyramidal structure may also allow indirect control by family members (La Porta et al., 1999).

Family businesses with a positive impact can supervise the company's efficiency and minimize agency expense through the directors with family relations (Jensen & Meckling, 1976; Fama & Jensen, 1983; Demsetz & Lehn, 1985; James, 1999; Joh, 2003). For example, family owners may contribute to the improved performance of companies as they start up (Kets de Vries, 1993). Furthermore, the confidence established between family members may build a favorable working atmosphere (Chami, 1999). The higher share held by the family members, by way of unfair compensation, associated parties and non-peculiar benefits, would, in comparison, trigger expropriate companies' assets for themselves (Shleifer & Vishny, 1997; DeAngelo & DeAngelo, 2000). In previous studies, there had been mixed results that indicated that some studies documented positive associations with a firm interest. (Mishra etal., 2001; Wiwattanacantang, 2001; Anderson & Reeb, 2003; Villalonga & Amit, 2006; Amran & Ahmad, 2010; Gama & Rodrigues, 2013; Kamardin etal., 2016).

The positive relationship between family ownership and business performance is expected to be hypothesized:

H3: There is a positive significant relationship between family ownership and financial performance of public listed companies in Saudi Arabia.

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3.4 Variables Measurement

3.4.1 Dependent Variable

The research focuses on firm performance. Return on Assets (ROA) and Return on Equity (ROE) is the metric used for measuring dependent variables. The net income divided by a book value for total assets is defined as ROA (Yeh et al., 2001; Anderson & Reeb, 2003; Chen et al., 2005; Amran & Ahmad, 2010). ROE is described as net income divided by shareholders‟ equity (Anderson & Reeb, 2003; Amran & Ahmad, 2010). This calculation is used mainly in literature on financial performance (Amran & Ahmad, 2010).

3.4.2 Independent Variables

3.4.2.1 Existence of RMC

This study tests RMC's presence by defining the company annual report material. In the section Corporate Information or Corporate Governance Statement, details may be gathered. There are two autonomous RMC and RMC in the audit committee. The role of RMC is split into two. In the case of separate RMC and existence of RMC, coded '1' and non-existence of RMC, coded '0'.

3.4.2.2 Ownership Structure (Director Ownership)

This research tests the management ownership by extracting from the annual report in the corporate information section the names of directors with shareholdings. The names of the director were then listed on the table. Each of the managers have been listed by reference to the section of the Managers Profile and the Shareholding Review. Managers with no relation with the largest family shareholder is listed as director ownership.

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Directors ownership is the number of shares held by the manager (direct and indirect shares) over the total amount of shares given. This assessment was applied by numerous researchers in the previous study (Han & Suk, 1998; Ruhani & Sanda, 2001; Mohd Sehat & Abdul Raman, 2005; Mak & Kusnadi, 2005; Kamardin, 2014) on measurement management ownership.

3.4.2.3 Ownership Structure (Family Ownership)

This study examines on family ownership by extracting the names of directors with shareholdings from the annual report in the Corporate Information chapter. The names of the director were then listed on the table. All managers were calculated by reference to the section of the Directors profile and the Shareholdings Review whether they have family relationships and the number of shareholder managers. Managers with a family partnership have been listed as family ownership by the largest family shareholder. Their direct and indirect shares have been attached to each director to calculate the total shares for each director.

Many researchers used the same measure in the previous study (Mishra et al., 2001; Yeh et al., 2001; Anderson et al., 2003; Villalonga & Amit, 2006; Saleh, Rahman, & Hassan, 2009; Ibrahim & Abdul Samad, 2011; Kamardin et al., 2016) on family ownership.

3.4.3 Control Variables

3.4.3.1 Board Size

The size of the board is determined by the number of managers in the company. The number of directors includes independent managers, non-independent director, executive managers, non-executive executives, managing executives, retired managers and alternative managers.

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In the Annual Report of the Organization, details on board size can be derived from organizational details and the profile of directors. A mixed study was found in which some scientists claim that board size is linked positively to firm results, and some claim that the board size has a negative association with firm performance, (Eisenberg et al., 1998; Mishra et al., 2001; Mak & Yuante, 2002). In addition to these researchers' evaluations, the Board is not uncertain. In this analysis, the board size is assumed to have a positive performance relationship.

3.4.3.2 Board Composition

The board composition is determined by determining the number of independent managers divided by a total of the company directors. the information is derived from an annual report in the Director Profile section.

Previous study found that the strength of independent managers who can balance the interest of the various stakeholders (Kallamu, 2015) and their performance is calculated by measuring a number of independent managers who worked for RMC in the financial crisis compared with the less independent managers (Yeh et al, 2011). A positive relationship between board composition and corporate performance was found between (Van Hoof & Park, 2017). This study expected the composition of the Board and financial results to be successful.

3.4.3.3 Firm Size

Firm size is one of the variables for creating an internal control mechanism in a firm which could affect firm decision making (Wallace & Kreutsfeldt 1991). Firm size is estimated using the total assets natural log. Total assets are the best indicator for the corporate size because they represent the overall risk wealth (Shahwan, 2015). A research by Sufian and Habibullah

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(2010) reveals that firm size negatively effects financial performance, and this study expects that firm size to have a negative relationship with financial performance.

3.4.3.4 Leverage

Leverage is one of the indicators used in the efficiency analysis. A level of debt represents a high-risk profile under which the company has demonstrated a high leverage of the company and its creditors (Yatim, 2009). Leverages are determined by the ratio of total debts and total assets under which the leverage trigger can be controlled by the ratio. The data has been compiled in the annual report from the segment Information Stream and Financial Statements.

3.4.4 Model Specification and Analysis

For the analysis, the variables employed are taken from a literature review (Kallamu 2015, Yatim 2009, Amran & Ahmad 2010). To estimate the relationship between financial results and the nature of RMC and ownership and control variables, this regression model is been used.

$$FP = \alpha + \beta_1 EXISTRMC + \beta_2 DIRECTOROW + \beta_3 FAMILYOW + \beta_4 BOARDCOM + \beta_5 BOARDSIZE + \beta_6 FIRMSIZE + \beta_7 LEVERAGE + \varepsilon$$

The variables in the research model are measured as follows:
FP = Return on Assets (ROA) and Return on Equity (ROE)
EXISTRMC = Existence of RMC "1", "0" otherwise
DIRECTOROW = Proportion of Director Ownership
FAMILYOW = Proportion of Family Ownership
BOARDCOM = Proportion of Independent Director in the company
BOARDSIZE = Number of directors served in the company
FIRMSIZE = Natural Log of total Assets
LEVERAGE = Ratio of total debt to total assets
ε = Error term

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3.5 Data Collection

All listed companies in Saudi Arabia bursa (TADAWAL) are included as part of this report. 171 companies have been listed in 2019. The companies included customers, manufacturing, construction, trade and services, technology, transportation, hotels, properties and plantations. This study used secondary data available from annual report, Thompson database

3.5.1 Sample Selection

As mention above, the Saudi Arabia bursary (TADAWAL) comprises 171 companies in 2019. The number of businesses included financial firms and firms in distress. The total population after deducted 33 financial enterprises are 138 categorized businesses, manufacturing, construction, trade and services, telecommunications, transportation, hotels, properties and plantations. The sample of the study is selected in the 2019 main listings board by randomly selecting 40% for each category omitted financial enter. As a summary of the report, 40 percent of the individual groups contain 57 firms. The results thus obtained can be extended to listed companies in Saudi Arabia.

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3.6 Data Analysis

In order to examine the hypothesized relationship, the analysis uses different statistical measures, including first, defining the characteristic of the sample by descriptive statistics (mean, minimum, maximum and standard deviation). The next thing to be checked is the normality of the results, to determine if the data set is well-modelled by the normal distribution and measure how likely it is to be normally distributed with a random variable underlying the data set. The correlation analysis was then used to test the variable with the dependent variable as strong and weak as it has. Correlation Measures the strength of the

relationship between two variables and the direction of the relation. The value of the correlation coefficient ranges between +1 and -1 in relation to the strength of the relation. A value of ± 1 reflects a complete degree of correlation between the two variables. As the coefficient of correlation is 0 the relation between the two variables will be weaker. The multicollinearity test of independent variables and control variables was also done with the correlation analysis, "Multicollinearity" , in regression, refers to predictors that are correlated with other predictors. Multicollinearity occurs when there are several variables in your model that are associated not only with your response variable but also with each other. In other words, when you have factors that are a little redundant.

In conclusion, multiple regressions were applied to analyze the effect on financial performance of the companies with these variables, multiple regressions an extension of simple linear regression. It is used if we want to predict a variable's value based on two or more other variables. The variable that we want to predict is called variable dependent.

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3.7 Summary

This section established a theoretical framework based on the assumption that the existence of the RMC, the ownership of the director and the ownership of the family would contribute to financial performance. In addition, this study develops hypotheses that attempt to answer the questions. This also expanded prior research with some of the performance models with additional variables which should have an impact on performance are discussed in this chapter too. All the data are collected from Thompson DataStream and annual reports. Finally, model, procedures and analysis adopt in testing the assumptions are elaborated in this chapter.

CHAPTER 4

RESULTS AND DISCUSSION

4.1.Descriptive statistics

Table presents descriptive analysis for the variables in this study. From the table below, the mean for ROA is .0330884 with minimum value -.22375 and the maximum value is .246088 which indicate how much the company could generate as an income from each 1SAR in assets.

The mean for ROE as shown in the table is .0146915 with the minimum value -3.51513 and the maximum value is .598587 which we could say that the company could generate .0146915 profits from each 1 SAR paid by the shareholders.

The result for RMC is the number of firms with independent RMC. The mean for RMC is .3684211 of the sample have stand-alone RMC.

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The mean of family ownership as shown in the table below is .592 with minimum .0182 and maximum .9637 which mean the percentage of shares owned by directors who have family bonds. The mean for director ownership is .408 with minimum .0362 and maximum .9818 which represent the number of shares hold by the directors in the companies.

For the firm size we can see that the mean 18.993, also the mean for the leverage is .5314. the board size mean is 8.754, and finally the board composition mean is .4532.

Table 4-1 *Assumption Test in Regression Analysis*

Variable	Obs	Mean	Std. Dev.	Min	Max
company	0				
ID	57	29	16.59819	1	57
YEAR	57	2019	0	2019	2019
ROA	57	.0330884	.0734337	-.22375	.246088
ROE	57	.0146915	.4964552	-3.51513	.598587
RMC	57	.3684211	.4866643	0	1
DIRECTOROW	57	.4080336	.2568475	.0362	.9818
FAMILYOW	57	.5919639	.2568441	.0182	.9637
FIRMSIZE	57	18.99376	2.673287	13.16032	23.02766
LEVERAGE	57	.5314757	.2749427	.02378	.93627
BOARDSIZE	57	8.754386	1.29946	5	11
BOARDCOMPOS	57	.4532701	.1336076	.25	.875

The analyzes of linear regression are important to test the normality analysis, Multicollinearity and (Villarín, M. C.2019). The first assumption, normality is regulated by the histogram of residual distribution and Standardized residual dispersal plot diagrams. The findings of the ROA dependent variable are seen in Figures 4.1 and 4.2. The problem of outliers, which evaluated the normality, homoscedasticity and multi-collinearity analysis for 49 companies, excluded 8 companies for ROE. Figures 4.4 and 4.5 display the distribution to represent a normal curve for the ROE-dependent variable 49 that indicates the results agree with the assumption of normality.

The second assumption, the test of homoscedasticity is evaluated from the scatter plot diagrams. The result in Figure 4.3 and 4.6 suggests that the variance of a dependent variable is the same for all values of independent variables as no different pattern in the data point is discovered. For the final assumption, multicollinearity is evaluated by examining the correlation analysis and Variance Inflation Factors (VIF) which are presented in the next section. Overall, the findings show that the assumptions

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Data are met with normality, homogeneity, and multicollinearity.

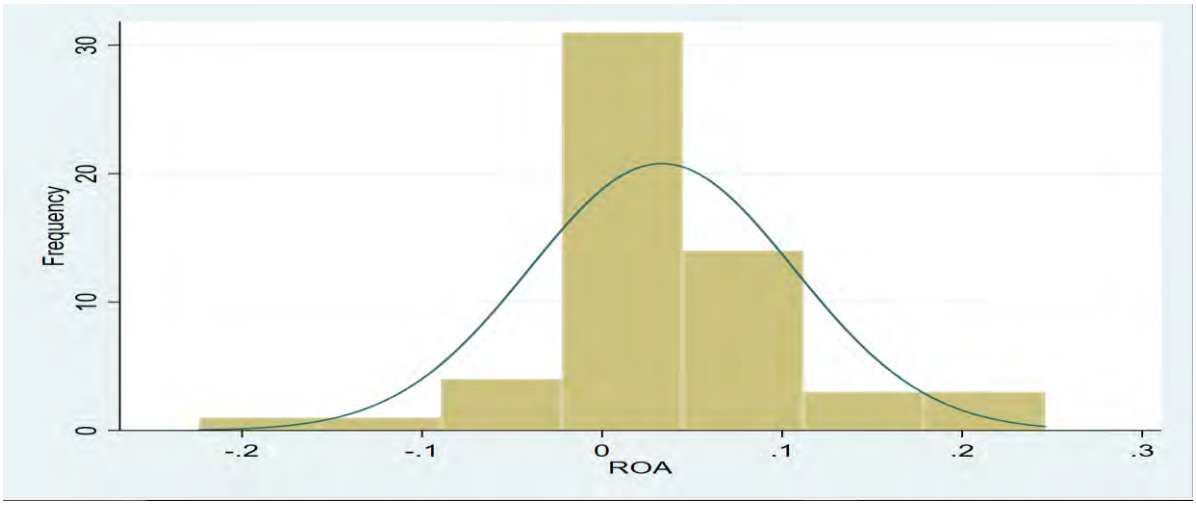

Figure 4-1 *Normality Test for ROA*

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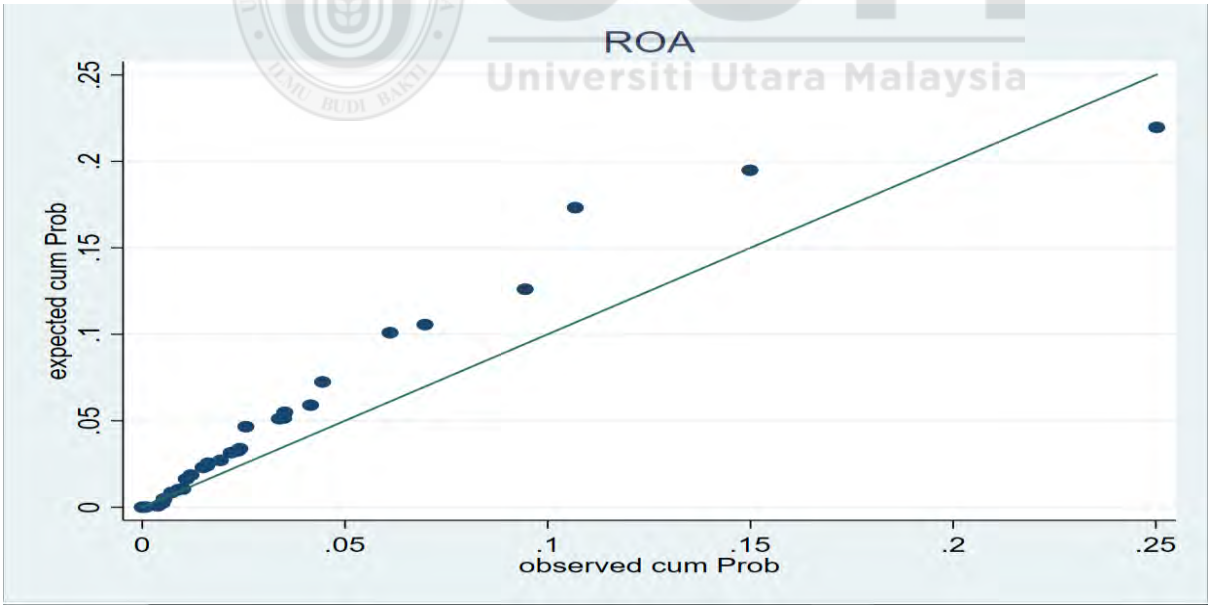

Figure 4-2 *Linearity Test for ROA*

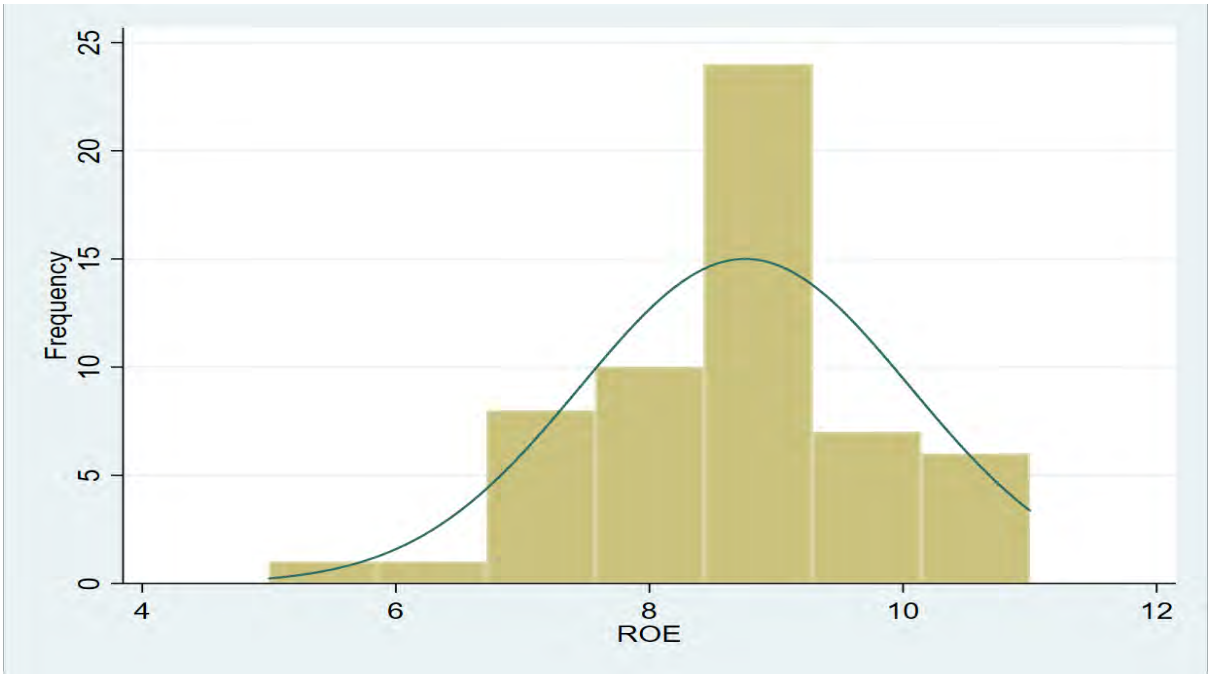

Figure 4-3 *Normality Test for ROE*

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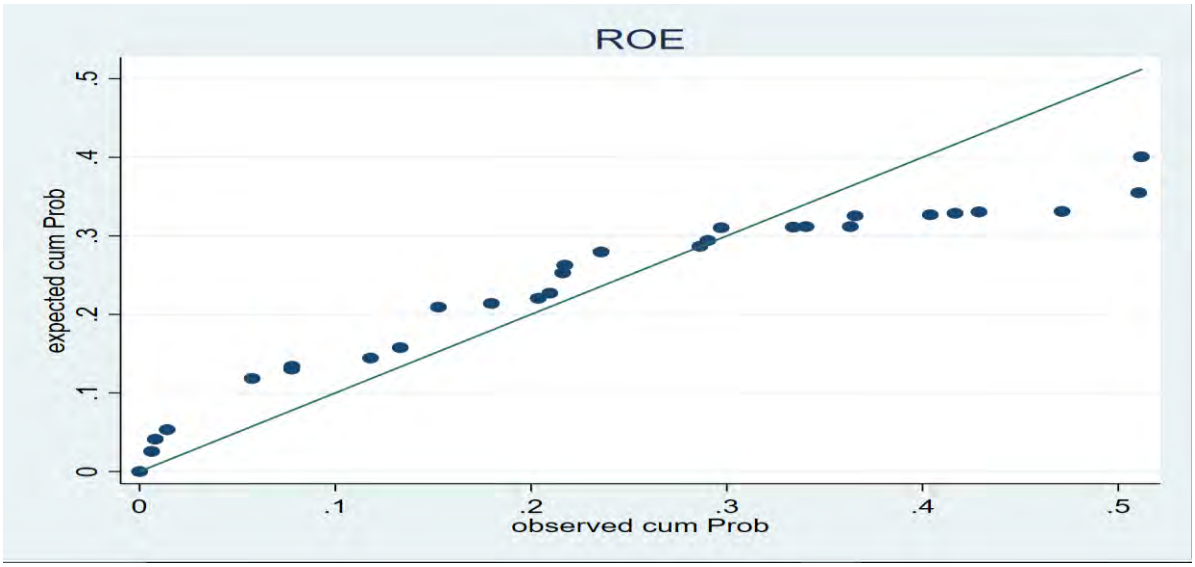

Figure 4-4 *Linearity Test for ROE*

4.2.Correlation Analysis

The correlation analysis indicates that two factors interact. That is the definition of the Level with a relation between the one variable and the other (Asteriou & Hall , 2007). This is seen as well. To verify the existence of independent variables of a multi-linearity problem. The research starts with the analysis of the relation between independent and dependent variables. The correlation of ±1.0 shows that the findings are negative or positive relationship. Zero (0) is no relation and one (1) is a perfect relation. Furthermore, the interaction is considered minimal when r = ± 0.30 to ± 0.49 and r ≥ 0.50. The frequency of the partnership is perceived to be important.

Table 4-2 *Correlation Results*

	ID	YEAR	ROA	ROE	RMC	DIRECT~W	FAMILYOW	FIRMSIZE	LEVERAGE	BOARDS~E	BOARDC~S
ID	1.0000										
YEAR	.	.									
ROA	0.0892	.	1.0000								
ROE	-0.0520	.	0.6610	1.0000							
RMC	-0.5836	.	-0.0651	0.1230	1.0000						
DIRECTOROW	0.0864	.	0.1217	0.0451	0.1962	1.0000					
FAMILYOW	-0.0863	.	-0.1217	-0.0451	-0.1963	-1.0000	1.0000				
FIRMSIZE	0.3021	.	0.0271	0.2624	-0.1356	-0.0468	0.0468	1.0000			
LEVERAGE	-0.2163	.	-0.3950	-0.2006	0.3131	0.1214	-0.1214	0.0375	1.0000		
BOARDSIZE	-0.3345	.	-0.0992	0.1525	0.3715	0.2414	-0.2414	-0.0349	0.3209	1.0000	
BOARDCOMPOS	-0.0816	.	-0.0913	-0.0303	-0.1890	-0.4058	0.4058	-0.1604	-0.1531	-0.0775	1.0000

In Table 4.2, there is a positive correlation between two variables and ROA that are the director ownership and the size of the firm. The members of the board composition had a negative 9 percent correlation to ROA and the size of the board with ROA is also negative,

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meaning that the amount of independent executives in the business and the size of the firm are not related to the success of the company.

The findings of ROE research found that there are positive correlations in just four different variables: RMC, director ownership, size of the firm and size of the board. It means that the company which has a director ownership, a large board, and large assets has a good financial performance. The composition of the board has a 3% negative correlation.

For the correlation of independent variables and control variables, a positive RMC correlation with a board size of 0.37 tends to indicate that the Board's size has a connection to the existence of independent RMC in the firm. Family ownership has positive 5% correlation with the firm size and a negative 5% correlation with the board composition. The findings for the director‟s ownership reveal that the board composition and leverage are negative at -.153%. The finding also reveals that director ownership has a negative correlation of -.4 percent with size of the firm. There is also a positive correlation between firm size and leverage at 3.75%, which means that the more independent board directors increase the leverage. In addition, a negative correlation existed between the composition of the board and the size of the board at -.7% and implies that the independent directors in the organization have no relation to the board 's size.

Enterprise. The discussion above shows that the most significant connection is between independent variables and control variables is Between family ownership and board composition, at 0.4058.

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4.3.Regression Analysis Result

Each section provides an overview and review using multiple regression techniques. The relationship behind RMC 's existence in Saudi Arabia's publicly listed company. Director ownership and family ownership and performance (measured by ROA and ROE). It also discusses the relation between the control variables of board size, board structure, company size and leverage with company's performance (measured by ROA and ROE).

In Table 4.2, Study of regression shows that the model's R square is 0.2040. Squared R of 0.0903 modified. It means that 9 percent of the model can be clarified variability in the results of the business in the research sample. This also reveals that Just 20.4% of the business results volatility is clarified the independent variable and factors under influence was explained by the remaining 79.6 percent Factors rather than that.

The results of linear regression using ROA as dependent variable and existence of RMC, director ownership and family ownership as test variables are presented in Table 4.3. The variable of RMC is positively found but insignificant, p > 10% and indicating that there is no association between RMC existence and performance. In other words, the existence of RMC in public listed companies in Saudi Arabia is not associated with firm performance. Hence, the hypothesis 1 of this variable is not supported. A positive explanation for this result is most of the public listed companies in Saudi Arabia have a good financial performance without RMC in their companies and the responsible in risk controlling was done by Audit Committee.

The variable of family ownership is positively found but insignificant, p > 10% indicating that there is no connection between family ownership and performance. In other words,

family ownership in public listed companies in Saudi Arabia is not associated with firm performance.

The result is consistent with other studies that found a negative association with firm performance (Saleh, Rahman, & Hassan, 2009; Ibrahim & Abdul Samad, 2011). Hence, the hypothesis 3 of this variable is not supported. The result shows a contrast result from agency theory where family-controlled firms have a positive influence on firm performance where the directors who have family ties better in monitoring firm performance and reducing agency costs (Joh, 2003, Lee, T., & Chu, W. 2017; Dyer, W. G. 2018; Samara, G., & Berbegal-Mirabent, J. 2018).

The result also shows that there is no support for hypothesis 2 concerning an association between director ownership and performance. The variable of director ownership is found negatively insignificant, p > 10%. In other words, director ownership in public listed companies in Saudi Arabia is not associated with firm performance. Hence, the hypothesis of this variable also is not supported. The result is inconsistent with theory predicted that the presence of director ownership tends to reduce agency costs and increase performance (Filatotchev et al.,2005; Krivogorsky, 2006; Hussain & Kamarudin, F. 2018; Owusu, A., & Weir, C. 2018).

Table 4.2 also shows an insignificant positive association between firm performance and firm size (p-value 0.775), board size (p-value 0.816) and negative insignificant board composition (p-value 0.512) and a significant negative association between firm performance and leverage at p-value 0.003. This result is consistent with the previous study that found significant

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negative association between firm performance and board composition (Jeleel, A., & Olayiwola, B.2017; Rao, M., Khursheed, A., & Mustafa, F. 2020).

Table 4-3 *Regression Model for ROA*

Source	SS	df	MS	Number of obs	=	57
				F(7, 49)	=	1.79
Model	.061618107	7	.008802587	Prob > F	=	0.1097
Residual	.240362333	49	.004905354	R-squared	=	0.2040
				Adj R-squared	=	0.0903
Total	.301980441	56	.005392508	Root MSE	=	.07004

ROA	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
RMC	.0026292	.0222415	0.12	0.906	-.0420667	.047325
DIRECTOROW	-525.2559	757.5095	-0.69	0.491	-2047.528	997.0164
FAMILYOW	-525.304	757.5232	-0.69	0.491	-2047.604	996.9958
FIRMSIZE	.0010434	.0036302	0.29	0.775	-.0062517	.0083386
LEVERAGE	-.1190945	.0373748	-3.19	0.003	-.194202	-.043987
BOARDSIZE	-.0019476	.0083426	-0.23	0.816	-.0187127	.0148174
BOARDCOMPOS	-.0526453	.079708	-0.66	0.512	-.2128244	.1075339
_cons	525.3996	757.539	0.69	0.491	-996.932	2047.731

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Table 4.3 reveals that the R squared of the formula are 0.2040 and the adjusted R squared is 0.0906. In Table 4.4. This shows that the model can account for 20.40% of the Company's performance variability in this study sample. It also shows Just 9% of the overall business results fluctuations was clarified by Independent variables and control variables wherever the other 91 percent clarified by Variables rather than that. This means that the model demonstrates the variations in results in Saudi Arabia among publicly listed companies.

Source	SS	df	MS	Number of obs	=	57
				F(7, 49)	=	1.80
Model	2.81884019	7	.402691455	Prob > F	=	0.1092
Residual	10.9833572	49	.224150146	R-squared	=	0.2042
				Adj R-squared	=	0.0906
Total	13.8021973	56	.24646781	Root MSE	=	.47344

ROE	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
RMC	.2036069	.150348	1.35	0.182	-.0985288	.5057425
DIRECTOROW	-53.53352	5120.619	-0.01	0.992	-10343.8	10236.73
FAMILYOW	-53.58918	5120.711	-0.01	0.992	-10344.04	10236.86
FIRMSIZE	.0585762	.0245395	2.39	0.021	.0092623	.1078901
LEVERAGE	-.6054736	.2526465	-2.40	0.020	-1.113186	-.0977615
BOARDSIZE	.0734262	.0563944	1.30	0.199	-.0399026	.1867549
BOARDCOMPOS	.1230776	.5388105	0.23	0.820	-.9597027	1.205858
_cons	52.01664	5120.818	0.01	0.992	-10238.65	10342.69

Table 4-4 *Regression Model for ROE*

The results of linear regression using ROA as dependent variable and existence of RMC, director ownership and family ownership as test variables are presented in Table 4.4. The variable of RMC is positively found but insignificant, p > 10% and indicating that there is no association between RMC existence and performance. In other words, the existence of RMC in public listed companies in Saudi Arabia is not associated with firm performance. Hence, the hypothesis 1 of this variable is not supported. A positive explanation for this result is most of the public listed companies in Saudi Arabia have a good financial performance without RMC in their companies and the responsible in risk controlling was done by Audit Committee.

The variable of family ownership is found negative insignificant, p > 10% indicating that there is no association between family ownership and performance. In other words, family ownership in public listed companies in Saudi Arabia is not associated with firm performance. Hence, the hypothesis 3 of this variable is not supported. The result shows a

contrast result from agency theory where family-controlled firms have a positive influence on firm performance where the directors who have family ties is better in monitoring firm performance and reducing agency costs (Joh, 2003, Lee & Chu, 2017; Dyer, 2018; Samara, G., & Berbegal-Mirabent, 2018).

The result also shows that there is no support for hypothesis 2 concerning an association between director ownership and performance. The variable of director ownership is negatively found and insignificant, p > 10%. In other words, director ownership in public listed companies in Saudi Arabi is not associated with firm performance. The result is consistent with Shukeri et al. (2012) and Kamardin et al. (2016) found that director shareholding was statistically not significant and have negative relationship with performance. Hence, the hypothesis of this variable is also not supported.

Table 4.4 also shows an insignificant positive association between firm performance and board size (p-value 0.199), board composition (p-value 0.820) and a significant negative association between firm performance and leverage at p-value 0.020, and significant positive firm size with financial performance at (p-value 0.021). This result is consistent with the previous study that found significant negative association between firm performance and leverage (Jeleel, A., & Olayiwola, B.2017 ;Rao, M., Khursheed, A., & Mustafa, F. 2020).

4.4.Summary

In this chapter, descriptive, assumption, correlation and regression analysis were presented and discussed. Assumption test was performed to check normality and homoscedasticity. Histogram, and variance inflate factors (VIF) reports that assumptions are met. Correlation analysis was also conducted to provide insight into the correlation among the variables. It

reports that director ownership and firm size have a correlation with ROA meanwhile RMC existence, family ownership, leverage, board composition and board size have a negative correlation with ROA. For ROE, only three variables have a negative correlation which is family ownership, board composition and leverage. Meanwhile, RMC existence, and director ownership, board size and firm size have a negative correlation with ROE. Finally, regression analysis was carried out to determine which variables have a significant impact on firm performance. The result shows that firm performance have a positive relationship with RMC and negative relationship with director ownership and family ownership by using ROA and ROE measurement. It also revealed that three control variables i.e. leverage with ROA also firm size and leverage with ROE have a significant association between firm performance and the others been found insignificant.

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CHAPTER 5

CONCLUSION

5.1.Introduction

This chapter will present a summary of the main findings, followed by a recommendation for future research.

5.2.Summary

The objective of the study is to classify the association of corporate governance mechanism with the financial performance of the Publicly listed firms in Saudi Arabia. The corporate government mechanism consists of the existence of the risk management committee and ownership structure separated into family ownership and director ownership. Board size, board composition, firm size and leverage are the control variables for this study.

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The previous study on financial performance investigated about corporate governance characteristics such as managerial ownership, family ownership, board size, board independence, CEO duality, gender diversity and ethnic diversity, board composition, firm size, leverage and only a few studies focuses on risk management committee (RMC). Due to the mixed result for these corporate governance characteristics, the corporate governance characteristics such as director ownership, family ownership and the existence of RMC was investigated. Manager ownership means the number of stocks owned by managers with a total number of issued shares. Conflicts between managers and owners can be alleviated by organization theories, which can enhance efficiency by reduced conflicts. The significant part

of the business share held by the manager indicates that the owner has extra opportunities to improve efficiency so that performance can be improved. According to agency theory, Managers prefer reducing the companies' costs and increasing their efficiency. Descriptive analysis showed that 36% of the sample companies have stand-alone risk management committee. The mean of director ownership is 40.08%. Correlation analysis was also conducted to provide insight into the correlation among the variables. It reports that firm size has a significant correlation with ROA meanwhile RMC existence, board composition, leverage and board size have a negative significant correlation with ROA. For ROE, only director ownership has a significant correlation. Meanwhile, director ownership and board composition have a negative significant correlation with ROE. Finally, regression analysis was carried out to determine which variables have a significant impact on firm performance. It reports that the study variables explain only 20.40 % of the variances in firm performance of public listed companies in Saudi Arabia with significant at 9.03 % for ROA and 20.42% of the variances in firm performance of public listed companies in Saudi Arabia with significant at 9.06% for ROE. The analysis of a sample of Saudi bursa (TADAWAL) companies shows that firm performance has a positive relationship with RMC, on the other hand family ownership and director ownership have negative relationship by using ROA and ROE measurement but the result is insignificant. It also revealed that only one control variable i.e. leverage has a significant negative association with ROA, and for ROE firm size has positive significant and leverage has negative significant and the others been found insignificant.

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5.3.Future Research

Based on the study limitations and findings, this study suggests future research to overcome the limitations of the study and offers more sight into the financial performance of the company. This study utilized existence of risk management committee, directors ownership and family ownership part of corporate governance characteristics as an independent variables; hence the future study is recommended to take into account the existence of risk management committee in public listed companies in Saudi Arabia in different dimensions like using a dissimilar financial performance analysis for instance market to book value analysis, return on investment analysis etc. The data uses in this study is cover only the year 2019, hence future study can be extended by using data from another year or two consecutive years. The study is limited only 57 companies of listed companies in Saudi Arabia; the future study also could extend the number of companies which can include more samples of data. Finally, risk management has become a matter debate by the management, and majority of the committee members are normally from management. A future study recommended to explore the independence of risks management committee and how the board and the audit committee may have to act to avoid managerial manipulations.

5.4.Conclusion

This study has investigated three hypotheses concerning the association among corporate governance characteristics (existence of risk management committee, director ownership and family ownership) with financial performance. By using multiple regressions, the result shows that all three hypotheses are not supported while only some control variables have a negative relation with financial performance. The thesis findings have made an important contribution by providing empirical evidence on how corporate governance characteristics

(existence of RMC, director ownership and family ownership) contribute to reduce agency problem by enhancing firm performance. Moreover, it provides more insight into firm performance by involving variables that have received little attention thus far. This thesis confronts a variety of limitations such as time constraints, firm financial performance measurement and limited sample size. Therefore, future research is suggested to be conducted to overcome the limitations.

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