

The Effect of Internal Corporate Governance on Earnings Quality, Firm Performance and Firm Value in GCC countries

For the degree of Doctor of Philosophy Ph.D.

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Declaration:

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Dedication

This work is dedicated with love to my parents Abdullah AL-Nasser and Kaltham AL-Arbash.

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Abstract

There has been an increase in the importance of corporate governance (CG) around the world, seeking to increase the protection and confidence among investors from fraudulent and unethical practices. Fama & Jensen (1983) argue that characteristics of boards of directors and ownership are important determinates of internal CG to mitigate agency problems in publicly listed firms. CG proponents argue that firms with well-implemented CG structures outperform those with weak CG structures (Lipton & Lorsch, 1992; Jensen, 1993). Nguyen et al., (2014) assert that the structure of internal CG is important, especially where there is little and ineffective corporate control (e.g. capital market and the regulatory system). They also encourage more empirical research to understand the effect of international diversity on internal CG. A plethora of literature has examined the association between CG, earnings quality (EQ), firm performance and firm value (Weir & Laing, 2000; Bozec, 2005). However, there are limited studies examining these associations in emerging markets (Van Essen et al., 2012), especially Gulf Cooperation Council (GCC) countries (Alghamdi, 2012, Baydoun et al., 2013). Furthermore, there is a lack of literature examining the impact of royal family members on EQ, firm performance and firm value.

The GCC is a fast growing regional organization of six Arab states namely, Kuwait, Bahrain, Oman, Qatar, Saudi Arabia (SA), and the United Arab Emirates (UAE) (Al-Shamari et al., 2008). The GCC countries share common economic, cultural, social, political, language and religion (AlMuharrami & Matthews, 2009). The GCC countries are oil rich Gulf Monarchies which provide a unique institutional setting as royal family members have a presence on the company board of directors. Royal board members enjoy prestige, status, power and privilege, and can influence monitoring and decision-making (Henry & Springborg, 2010). The extant literature has not fully examined the impact of politically connected royal family board members on GCC countries. The thesis addresses this gap in the literature and examines the effects of internal CG on; EQ, firm performance, and firm value, in GCC countries, with particular attention to royal family members on the board. In order to address the above topics, the thesis is split into three questions: *(1) what is the effect of internal CG on EQ in five of the six GCC countries. (2) What is the effect of internal CG on a firm's performance and firm value in five GCC countries. (3) What is the effect of attendance of royal family members at board meetings on a firm's performance and firm value in Saudi Arabia.* The study examines the relationship in five of the six GCC countries due to the lack of data variability of listed companies in one country Kuwait. EQ in the first question refers to relevance and reliability of financial information and protection of investors. In addition, the thesis used both firm performance and firm value because firm performance measurements show performance based on historical information (short-term firm performance), whereas the firm value measurements refer to long term

performance, growth and opportunities. To address these questions, agency theory is used as the theoretical framework and to develop hypotheses. The thesis used a unique hand collected dataset from non-financial public and listed companies on the GCC stock exchanges for the period 2009-2013.

The thesis uses a combination of univariate and multivariate analysis to investigate each research question. The research examines GCC countries as a single population due to similarities across the region. However, the researcher is aware of some differences among these countries and so the research examined each country individually. Further, the researcher analyses two stock markets in UAE separately due to some identified differences. The researcher utilises GMM dynamic panel as an econometric technique that provides unbiased estimates and controls the endogeneity of model predictor variables.

The main findings of the research question one are that royal family directors reduce the firm earnings quality while independent royal family members on the board improve the earnings quality of the firm, especially in Saudi Arabia. Consideration of the characteristics of firms is important; as the results indicate that CEO duality in high growth firms significantly decreases firms' earnings quality.

The findings under these two models tell an interesting story. With respect to individual countries, there are few differences in the association between firm performance and firm value. These results indicate that firm value refers to investment, growth and long-term performance where accounting measures reflect the short-term performance. Thus, some corporate governance variables have a different effect on firm performance and firm value.

The main findings emerging from this research question is that the attendance of royal directors at the board may enhance firm performance but not firm value, indicating that the market and investors do not care about their attendance at board meetings. However, considering the importance of the characteristic of the firm, the attendance of a royal director at board meetings in high leveraged firms tends to decrease a firm's performance. Interestingly, the ranking of the royal family (royal-highness) influences the effect of independent royal family members on the value and performance of the firm. This finding indicates that the more powerful the independent royal family (royal highness), the more negative influence it has on firm value.

Finally, this thesis offers analysis pertaining to CG, EQ, firm performance and firm value in GCC countries. Overall, it supports claims that when proper internal CG is implemented, the confidence of shareholders, especially minority shareholders, increases in a poorly protected environment. The findings indicate that the region has

good CG structure and practice but they should be fostered and companies should be encouraged to embed them. Furthermore, this thesis concludes that not considering the uniqueness of institutional settings will not give a clear picture of CG practice and influence in the region. Novel findings are provided with regard to a critical understanding of the role and power of the royal family members on the board of directors. The findings contribute to the debate on the impact and the importance of politically connected firms' debate on EQ, firm performance and firm value. This thesis also offers a recent update to investors and regulators with regard to the effect of royal family members on the board, which may affect the minority shareholders return. Significantly, the findings of this thesis extend the understanding of the diversity of CG practice and influence internationally.

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Abbreviations

Name	Symbol
EQ	Earnings Quality
EM	Earnings Management
CG	Corporate Governance
MENA	The Middle East North Africa Region
GCC	Gulf Cooperation Council
G20	Group of 20
LSE	London Stock Exchange
GDP	Gross Domestic Product
FDI	Foreign Direct Investment
FOC	Family-owned Companies
SOC	State-owned Companies
INSTITC	Institutional Ownership
PCA	Principal Component Analysis
UAE	United Arab Emirates
SA	Saudi Arabia
ROA	Return on Asset
ROE	Return on Equity
MC	Market Capitalization
AWCA	Abnormal Working Capital
AAA	Abnormal Total Accrual
IPO	Initial Public Offering
OECD and	Organization of economic corporation development
SOCPA accountants	Saudi organization for public
IFRS	Financial Reporting Standards

BRICS Russia,	Major emerging economies Brazil, India, China, South Africa
FRC	Financial Reporting Council
WB	World Bank
IMF	International Monetary Fund
WTO	World Trade Organization
MSM	Muscat Securities Market
CBB	The Central Bank of Bahrain
MSCI	Morgan Stanley Capital International
SAMA	Saudi Arabia Monterey Agency
ICBIN	Industrial classification Benchmark
DIFX Exchange	Dubai International Financial
ADX	Abu Dhabi Exchange Securities
DFM	Dubai Financial Market
IASB Board	International Accounting Standards
TNI	The National Investors
CGI	Corporate Governance Index

Chapter 1

Introduction

1.1 Introduction

Corporate governance is now a significant feature of publicly listed companies, particularly since the financial crisis of 2008 and the collapse of international companies, which weakened the economy of GCC countries (Tricker, 2009). Research into corporate governance became significant following this period (Alagha, 2016). The objective of the thesis is to investigate the effect of internal corporate governance on earnings quality, a firm's performance and firm value in five GCC¹ countries with a focus on the uniqueness of the institutional setting (e.g. royal family members). Therefore, using royal family members as board directors as a unique variable I attempt to provide new insight and perspective on this subject. The results of the research aim to give more clarity and precision to our understanding of GCC corporate governance practice and their influence on stock markets. The remainder of this opening chapter is organised as follows: Section 1.2 introduces the background of the study and justification for conducting the research. Section 1.3 provides the importance of studying CG in emerging markets. Section 1.4 provides the three research aims and questions, and Section 1.5 illustrates the links between these questions. The importance of corporate governance for minority shareholders takes place in Section 1.6. Section 1.7 presents the organisation of the thesis and a brief synopsis of the content of each chapter. Lastly, Section 1.8 provides a summary of this section of the thesis.

1.2. Background of the Study

The recent global financial crisis has raised several questions regarding misbehaviour in many international companies. For instance, the collapse of several large corporations such as Enron and WorldCom is due to a failure in corporate governance (CG). These failures have not just affected the economies of the developed countries but have focused attention on weak CG in developing countries (Petra, 2006). The Gulf Cooperation Council (GCC) countries are not immune to such practices and their consequences. The GCC was founded in 1981 and

¹ Kuwait was eliminated due to the lack of data availability.

consist of six Arab states, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia (SA), and the United Arab Emirates (UAE), all of which are Gulf Monarchies. The fact too that the GCC has suffered a series of stock market crashes and corporate scandals. For instance, in 2008 a scandal of listed company SHUAA Capital in the Dubai International Financial Center (DIFC) was caused by earnings manipulation (Kerr, 2011). Also, many shareholders lost their equity during the GCC market crisis in 2006 (Alghamdi, 2012). These issues damage investor confidence, especially minority and foreign investors. Naturally, under the critical circumstances faced by the stock markets, many companies have shed light on the concept of CG and therefore, placed more emphasis on its weaknesses in the region and the need for improvement.

Reviewing empirical studies pertaining to CG, earnings quality (EQ), firm performance and firm value highlights a notable gap in the literature as most concentrate on the USA and Europe (Bekiris & Doukakis, 2011; Ebaid, 2005). Thus, there is a dearth of research on GCC countries as emerging markets, and it is useful to understand this part of the world. Bhasa (2004) argues that there is a need for more studies on a governance model in developing countries. There is also a growing call for more research regarding the effects of CG on EQ, a firm's performance and a firm's value in the GCC (Alghamdi, 2012, Baydoun et al., 2013; Dalwai et al., 2013). In addition, Raghu (2016) claims that the research of stock markets in GCC countries has no depth. Metrick & Ishii (2002) and Klapper & Love (2004) argue that understanding the quality of CG practice and its influence on EQ, firm performance and firm value are important when a country has a weak legal system, so there is a need for more research on this issue. Specifically, Mahadeo et al., (2011) claim the importance of considering the characteristics of emerging countries in empirical research.

GCC countries have concentrated ownership with strong families and state control of both private and listed companies (Tricker, 2009). In addition, in monarchy countries, the state typically owns a high number of shares in publicly listed companies. It is also not surprising to find royal family members and government officials present on the board of directors of these companies. These countries have problems that are still evident in the areas of "transparency, disclosure, risk management and board practice" (Saidi, 2011). These factors influence various businesses including listed companies, banks, state-owned enterprises and family-owned enterprises (Saidi, 2011). Protection of minority shareholders may be an issue, so this needs to improve. The model of CG in GCC countries differs from other developed and developing countries due to the institutional structure of GCC countries; the political system in the region is a monarchical family system, which provides a very interesting setting for examining the association between CG, EQ, firm performance and firm value.

In the global market context, developed and developing markets interact with each other and the stock markets are more connected and more complex than before (Lehkonen & Heimonen, 2014; Miralles- Marcelo et al., 2015). Stock markets in GCC countries are promising for investors and investment and continue to develop (Mansur & Delgado, 2008). Thus, due to globalisation, investors are not only domestic anymore as foreigners are now showing interest in investing in this promising region (Held & Ulrichsen, 2013). Investors need to understand both developed and developing markets to expand the diversification of the global equity markets. Thus, interest has grown in understanding the region. Besides, these stock markets are now welcoming foreign investors more than before to finance their operation and to extend their businesses internationally. They cannot achieve this without having good CG practice to enhance the investor's confidence after the global financial crisis (Alagha, 2016).

literature should explain to investors about developed and emerging markets to help them to make a reasonable decision on whether to get involved or not. In particular, the literature concerning the CG of GCC countries could be broader. In fact, the research on CG encourages the consideration of the uniqueness of the institutional setting (e.g., royal family members) as it influences the practice of CG. When researching CG in GCC countries, these CG variables are missing in the majority of the literature. This results in a distortion of reality as scholars touch only modestly on the involvement of royal family members and government officials in the business. No empirical study has examined their effect on EQ, firm performance and firm value in the region. Thus, this research attempts to bridge the gap in the literature by presenting additional insight to extend the literature of emerging countries. All of the above act as motivation to investigate CG in five GCC² countries from the perspective of shareholders. Therefore, the thesis examine the current situation about the effect of CG on EQ, firm performance and firm value in the GCC countries. Specifically, the thesis is intends to focus on two aspects of CG: the influence of the board of directors' characteristics and ownership structure toward EQ, firm performance and firm value. In addition, the thesis accounts for the uniqueness of the institutional setting (e.g., royal family members).

1.3. The Importance of Studying Corporate Governance in Emerging Markets

Even though the enforcement of CG in emerging markets is weak, understanding emerging markets' CG is important. Emerging markets account for half of the world population and more than one-fifth of global gross domestic product (GDP) (AL-Rashed, 2010). In fact, this

² Kuwait was eliminated due to the lack of data availability.

proportion is increasing. Also, increasingly, emerging market are becoming important engines of global growth. Emerging markets have specific features, opportunities, and risk (La Porta et al., 2000). In the last two decades, interest in emerging market has increased dramatically because these markets or economies offer significant opportunities for investment and investors expect to achieve a higher return because of the greater risk as well as potential diversification benefits. The most important criticism of emerging markets exercising of political power, corruption³, a significant lack of communication information and dominance of government and family owned companies. Groups with monopoly power have access and influence on government planning and policy changes; hence these firms benefit from these connections and cooperation with the influencer (Amico, 2014). Therefore, the emerging markets face greater influence due to social and political factors. Even though these markets offer significant investment opportunities and stable economies which help people to feel more confident, investors should consider the risk of emerging markets' investment (Tricker, 2009).

A recent survey conducted by International Finance Corporation (IFC)⁴ presents four observations about CG in emerging markets: first, even though emerging markets have weak enforcement law, emerging market investors believe that better firm-level governance can make up for country weakness in CG. Second, investors in emerging markets care a lot about CG and are willing to a pay premium for better-governed emerging market firms. Third, well-governed firms in emerging markets could mitigate some of their concerns about investing in a particular country. Finally, board independence is a low-level concern for emerging market governance⁵.

Importantly, it has been claimed that the CG implementation and practice in GCC is weak (Al-Rashed, 2010). However, the World Bank (WB) points out that GCC countries are better off regarding governance than other emerging countries and even some European countries, but are still behind the OECD countries (Amico, 2014). According to several surveys conducted in GCC countries, CG is one area of concern in the GCC business environment (Eulaiwi et al., 2016). According to Megginson et al., (2006) it is clear that no country has the best overall CG practice.

³ Corruption discourages foreign investors.

⁴

https://www.ifc.org/wps/wcm/connect/dbfd8b004afe7d69bcb6bdb94e6f4d75/IFC_EMI_Survey_web.pdf?MOD=AJPERES

⁵ There are no truly independent directors in emerging markets.

Stock markets in GCC countries are promising for investment and continue to develop (Mansur & Delgado, 2008). The share volume of GCC markets represents 0.8% of the global total (Held & Ulrichsen, 2013). Additionally, Held & Ulrichsen, (2013) argue that, although the stock markets of the GCC countries are small, they play a significant role in the global market. Therefore, GCC markets are promising markets for portfolio diversification in the region and the world (Aroui & Fouquau, 2009). Due to noticeable changes in economic status and the reform of the financial environment regarding the liberalisation of capital markets, more international and domestic investors are interested in GCC stock markets. Additionally, the introduction of new laws and governance protect property rights and ease ownership restrictions (Al Hadi et al., 2016).

Having reviewed the literature concerning the CG of GCC countries, the researcher finds that this issue is not sufficiently explored. Thus, through examining the most used CG mechanisms discussed in the literature that influence firm's earnings quality, firm performance, and firm value, this study will identify what feature of governance matter most for enhancing firm's earnings quality, firm performance, and firm value in GCC countries. The findings of the study will contribute to a better understanding about which aspect of governance matters the most and its effect on emerging markets investors' decisions.

1.4. Research Aim and Questions

The main research question is what is the effect of internal corporate governance on EQ? In addition, what is the effect of internal CG on firm performance and firm value in five GCC⁶ countries? The motivation and interest to answer this main question encouraged the following three research questions.

(1) What is the effect of corporate governance (board of directors' characteristics and ownership structure) on earnings quality in five GCC countries?

(2) What is the effect of corporate governance (board of directors' characteristics and ownership structure) on firm performance and firm value in five GCC countries?

⁶ Kuwait was eliminated due to the lack of data availability.

(3) What is the effect of the attendance of royal family members at board meetings on firm performance and firm value in Saudi Arabia?

Certainly, there is scarce evidence of the importance and influence of these variables of CG in the context of GCC countries. Thus, the thesis aims to discover the subject of CG and its effect on EQ, firm performance and firm value in GCC countries. It is important to mention that this research subject is suited to the field of accounting and corporate finance in the research area of corporate governance. It is important to note that the GCC countries consist of six Arab states, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia (SA), and the United Arab Emirates (UAE). However, the study focuses only on five countries namely Bahrain, Oman, Qatar, Saudi Arabia (SA), and the United Arab Emirates (UAE) due to lack of availability of data for Kuwait.

1.5. The Link Between the Research Questions

CG concept is a common link between the research questions. Therefore, literature and methodology overlap, especially for research questions two and three. Each question attempts to examine the effect of CG on different issues such as the EQ, firm performance and firm value.

For research question one: Most studies of CG and EQ are concentrated in developed countries and the majority of literature in emerging markets turns a blind eye on the uniqueness of an institutional setting (the involvement of royal family members) like in the case of GCC countries. An exception to this is Algamidi's (2012) thesis where he introduces this variable for the first time when examining the association between CG and earnings management (EM) in Saudi Arabia (SA). He considered the number of royal family members plus the powerful families on the board in SA in his research. Thus, he did not purely count the royal family members on the board. Therefore, these studies have not been taken far enough in terms of analysis and explanation.

Why does the study in GCC countries need to consider royal family directors on the board? First, power is invisible and cannot be touched or detected but it is really a force in any organization (Pfeffer, 1992). For instance, wealth and status are frequently attributed to power. Power is connected to politically connected firms (Faccio et al., 2006). In GCC countries, royal family members have power. Thus, the justification of choosing royal family members is that because of their prestige, status, power and privilege, they can influence monitoring and decision-making. According to Mazaheri (2013), "*monarchies are better able to solve the credible commitment problem between the government and existing private sector*

elites than non-monarchical authoritarian states.” Thus, the level of influence of CG on EQ is probably not akin to published studies using other contexts. The royal family members, in general, have greater power than the average person (Nasir & Abdullah, 2004). Thus, this researcher is interested in examining to what extent CG influence EQ in five GCC countries, which would reduce the probability of financial failure and crashes with attention on royal family members on the board. A primary dataset of CG in GCC countries is used to analyse this group of countries as one population and individually. In other words, the expertise of audit committee directors is under consideration because there is an expectation that they oversee the management to protect shareholders’ interests and to provide an independent view (Harrison, 1987). The involvement of royal family members on the board was also accounted for which is deemed to be unique to GCC countries as monarchy countries. The effect of politically connected firms is more significant and pronounced in emerging markets where the legal system is weak with little protection of shareholders’ rights (Faccio et al., 2006). Therefore, the research question builds upon the argument with regard to royal family members and from politically connected firms’ literature⁷. Finally, including this variable may fill an important gap in existing literature considering the environment is setting where ownership concentration is prevalent and where the presence of politically connected directors⁸ on a board is the natural form of political connection.

In question two: the study focuses on the effect of internal CG of the firm’s performance and firm value in five GCC countries. The findings in question one examining CG and EQ acted as an input to answer this question. The results indicate that the number of CG attributes affect the quality of the firm earnings positively. There is agreement among scholars with regard to the limitation of CG research or studies in emerging markets. According to Nenova (2003), CG in the developing countries is suffering from the effects of a number of issues including transferring the value from minority to controlling shareholders, a poor legal system, the problem of auditing practice and non-transparency disclosure. A critical glance at the literature review of GCC countries, firm performance and firm value shows that the literature does not adequately consider the uniqueness of an institutional setting such as the presence of royal family members and government officials’ members on the board. Additionally, noticeable features are not accounted for in the previous literature, such as a large involvement of relatives and the presence of a female on the board of directors. It is

⁷ Politically connected literature explains the characteristics and the effect of politically connected members who have power, status, privilege on earnings quality and firm performance.

⁸ The involvement of royal family members and government officials on the board.

important to understand whether these variables matter or not in this region as this then influences the firm's performance and firm value. In addition, this question considers some features of an audit committee and their effect on a firm's performance and firm value. An audit committee is an important committee within the board committee. An audit committee is not just for supporting management by giving advice for major business decisions but also for monitoring and overseeing the management to protect shareholders' interests and to provide an independent view of corporate executives and their affairs (Harrison, 1987). It has been argued that an audit committee is more beneficial due to its skills and resources, which in turn affects their ability to enhance EQ, firm performance and firm value (Ismail et al., 2007). With respect to females and relatives, it is interesting to note that the region is considered a collectivistic under Hofstade's cultural dimensions. Due to the culture and social norms, there is a fear of involving females on the board (Halawi & Davidson, 2008). However, lately, females further engagement in the economy has grown (Terjesen et al., 2009). In addition, as family ownership prevails in the region, there is a substantial involvement of relatives, which cannot be ignored (Halawi & Davidson, 2008). Finally, the rationale of using both firm performance and firm value in questions two and three is that firm performance measurements (ROA and ROE) reflect performance based on historical information. This reflects previous firms' operation, and the efficiency of the firm using equity funds to generate profits (Epps & Cereola 2008; Leng 2004) where the firm value measurements (Tobin's Q) show performance based on firm value by market evolution of the assets (Tobin, 1969), which in turn reflects current action (Kiel & Nicholson, 2003). In other words, firm value measurements indicate the perception of the market with respect to the firm's performance (Weir et al., 2002). It also refers to growth and investment opportunities (Boon et al., 2007; Link et al., 2008; Lehn et al., 2008). Firm value measurement also accounts for risk and is less likely to be manipulated as accounting measures (Al-Matari et al., 2014). Thus, it helps investors to estimate the growth and risk potential and shows the size of the firm. Management and investors have different interests and ways to evaluate CG; therefore, management attempt to use firm performance measurement (ROA and ROE) as the measurement to show how the wealth affects CG mechanisms. On the other hand, investors seem to prefer to value the firm structure of CG based on firm value measurement (Tobin's Q) (Black et al., 2006, Grab, 2007).

For question three: the researcher is interested in investigating the royal family's attributes in depth and their effect on a firm's performance and firm value. In order to achieve this, the researcher has to consider a further aspect of royal family members such as their status on the board, and their closeness to the Saudi King (if the royal family member is a royal highness or

a regular royal family member)⁹. In addition, the interest focuses on all GCC countries as monarch countries. However, the third question just looks at Saudi Arabia due to the lack of data availability with regard to royal family members in other GCC countries. Mfindings in both questions one and two are that the involvement of royal family members on the board does have a positive effect in enhancing EQ, firm performance and firm value that acted as an input to answer question three.

Furthermore, a lot of empirical research has examined the association between independent directors or CEO's compensation and a firm's performance (Vafeas, 1999). However, the literature is still not clear about other sets of mechanisms within CG that also play a significant role and influence the firm's outcomes (Vafeas, 1999). According to Larcker et al., (2007) board monitoring activity can be estimated through their meetings. In empirical literature, board meetings are internal CG mechanisms that have not been examined in depth (Vafeas, 1999). In addition, Vafeas (1999) proposed an interesting question for future work "*what powers do outside directors have in practice in shaping the meeting agenda?*" This refers to the fact that the power is as important as the independence of directors, which affects the board meeting setting and decision-making. There is a limitation and gap in the literature here, which should be addressed. Thus, based on the explanation in the literature review with regard to meetings and royal family members, the researcher is interested in examining both variables. Therefore, both variables are merged to create a variable called the attendance of royal family members on the board, and the effects of this variable are examined beside other variables of royal family members (such as their percentage, their status) and CG attributes on a firm's performance and firm's value. the researcher claim is that the attendance of royal family members at board meetings does matter, because they can influence board communication, strategies and decision-making.

The researcher believes that the most relevant literature is politically connected literature as it explains the characteristics and the effect of politically connected members who have power, status, and privilege on EQ, firm performance and firm value. However, prior studies relied heavily on questionnaires and interviews and have not examined the effect of politically connected managers in-depth in terms of their status, shares, involvement and attendance on a firm's performance and firm's value. Therefore, these studies are not going far enough in terms of their analysis. Besides that, due to the difference in legal systems, culture and institutions specific to other countries, the findings, even if relevant, cannot be generalised. There is a dearth of research on royal families in this region. In addition, given the limitation

⁹ A detailed explanation of royal highness provided in the methodology chapter (4).

from previous literature, the research question is relevant and there is a need for further examination of the effects of royal family members on a firm's performance and firm's value to fill the significant gap.

In light of the discussion above, the research follows a three-paper approach, and each of the three research questions built on limited literature; the research developed several testable hypotheses about CG, EQ, firm performance and firm value. The creation of the council of Gulf cooperation for six countries is because similarities outweigh differences regarding traditional culture, religion, language and the political system. Thus, these countries can be considered relatively or highly homogeneous (Shehata, 2013). Therefore, due to their similarities regarding characteristics and CG structure, the researchers examined these countries as a single population to have significant and notable findings of the five GCC markets. Kuwait was eliminated due to the lack of data availability. I explore a detail of process in Chapter 4. Brickley and Zimmerman (2010) claim that distinguishing a group with similar problems of agency and corporate structures helps to create meaningful outcomes.

To get a better understanding, the study consider each country separately as there is an awareness of the differences. Further, the researchers analysed two stock markets in UAE separately due to some identified differences (justification of this procedure appears in the methodology chapter, 4). For the methodology, the research has adopted a positivist paradigm and a quantitative method. The CG data was hand- collected and financial data taken from Datastream. Due to data availability, the sample of data covers the period from 2009 to 2013. With relation to research question one; having reviewed some research methodologies, the researcher decided that the discretionary accrual model by Defond & Park (2001) would be appropriate to measure EQ and GMM regression to examine the relationship. For research questions two and three, some firm performances and firm value measurement are used such as ROA, ROE as a proxy for firm performance (accounting indicator) and Tobin's Q as a proxy for firm value (market indicator). Then, the study regressed EQ, firm performance and firm value on attributes of CG and control variables. Finally, the researcher believes that answering these questions and understanding these concepts and their influence will extend the understanding of and interest in this region. The findings of these questions contribute to the academic literature in the fields of accounting and corporate finance, specifically in the area of corporate governance. The findings also provide a practical implication for policymakers and investors. The contributions are discussed in detail in Chapter 8. In addition, the researcher believe there is a need for further research to extend the understanding in this region.

1.6. The Importance of Corporate Governance for Minority Shareholders

It is important to note that the economy will have stronger growth when more investment is made, and this can be achieved through the adequate protection of shareholders especially minority shareholders (Levine & Zervos, 1998). However, the connection between the protection of minority shareholders and the growth of the economy (King & Levine, 1993 a/b) is not clear as it enhances their confidence, which is essential for their involvement and the function of the market. The protection of a minority of shareholders does matter because they cannot control the companies' affairs as majority shareholders. Majority shareholders own more shares in the companies; thus they have authority; power and can influence the firm regarding decision-making and actions (La Porta et al., 2000). The more power the majority shareholders have, the weaker the minority shareholders are. Majority shareholders can manipulate the accounting information to maximise their benefits and mislead the minority shareholders as the financial report inaccurately reflects the actual firm's performance. It has been argued that if there is effective minority shareholders protection in place from expropriation actions, economic growth increases as they direct their capital into investment (La Porta et al., 2000). CG mechanisms can accomplish effective and efficient protection of minority shareholders as these mechanisms offer a beneficial system about the relationship between the management, majority and minority shareholders. In other words, the protection of investors, especially minority shareholders, is one of the central components of corporate governance. Protection of minority rights is visible in developing countries, but this interest is not enforced properly and is not sufficient or adequate (Hamdani et al., 2012; Mclean et al., 2012). Unlike developed countries where the conflict of interest is between the management and a vast number of shareholders, in developing countries the conflict of interest is between the majority and minority shareholders (La Porta et al., 2002). Countries with proper protection of minority shareholders are more likely to have a high-value stock market, more liquidity, a higher number of listed companies and rates of capital demand compared to countries with poor minority shareholders (La Porta et al., 2002; John et al., 2008; Hamdani et al., 2012; Mclean et al., 2012). Also, effective minority shareholder protection encourages transparency, accountability and investor confidence, which can be reflected in the state of the economy (Judge, 2008). A study conducted by the OECD (2012), shows that CG standards are essential to promote business development, growth, and to enhance their EQ, firm performance and firm value.

Furthermore, due to increased globalisation, the world market has become more integrated (Chiou, 2008; Beine et al., 2010; Christoffersen et al., 2012; Lehkonen & Heimonen, 2014; Miralles- Marcelo et al., 2015) and more companies attempt to expand internally and

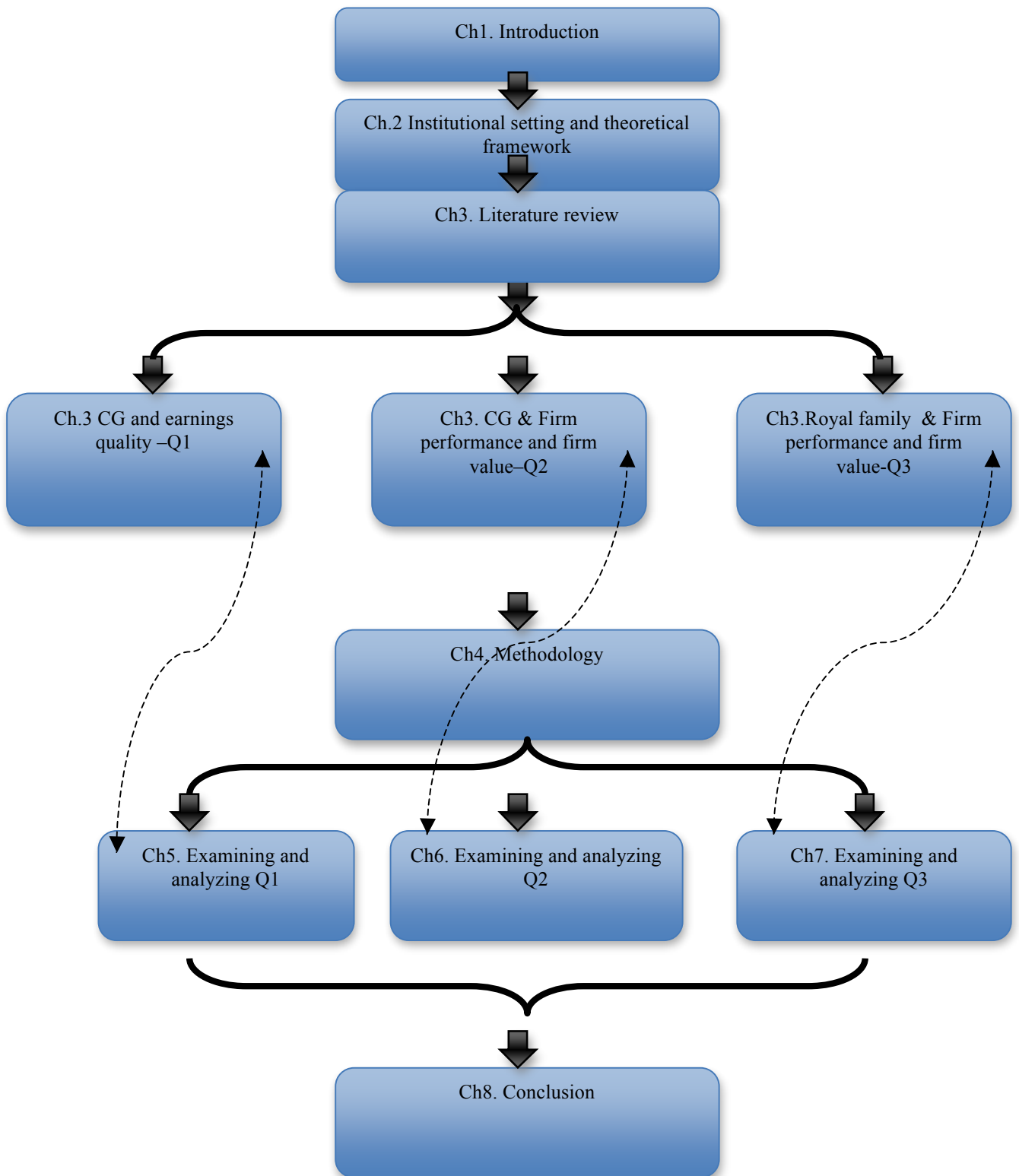
externally. Expansion requires funding, and more investors are interested in investing internationally. However, foreign investors and minority shareholders can be more encouraged to invest directly when they fully understand the condition of the market. When properly informed, they feel protected and have more confidence in the market. These objectives can be achieved by having proper CG practice in place. Based on the research in developed and developing countries, CG mechanisms have had a positively profound effect on the firms' EQ, firm performance and firm value (La Porta et al., 2000; Hamdani et al., 2012; Mclean et al., 2012).

Thus, developing countries have an excellent opportunity to implement proper CG structures, which will help to build more stable economies in the long term. In addition, preventing future crises and scandals can be tackled through right CG structures (Pierce, 2012). CG mechanisms can monitor management and offer oversight to firms. The research of CG in the last two decades helps to understand companies and increase the value and confidence of investors (Soobaroyen & Mahadeo, 2007)

1.7. Structure of the thesis

This thesis is divided into eight chapters as outlined.

Figure 1 Structure of The thesis



Chapter one provides an introduction to the research understudy and research questions.

Following this, the chapter finishes by outlining the structure of the thesis.

Chapter two shows the overview of institutional setting (GCC countries). Following that, the chapter focuses on a theoretical framework, which includes theoretical perspectives of agency theory. This theory provides a context for the research questions.

Chapter three provides comprehensive reviews of the relevant literature concerning the subject matter of CG, EQ, firm performance and firm value. The literature of CG is broad and overlaps, but the research outlines the relevant literature relating to the subject matter and finds the gap to bridge it by answering each research question. The study highlights the debate on CG and documents the relevant variables, which influence EQ, firm performance and firm value.

Chapter four is concerned with methodology and the way in which the research identifies the research paradigm as positivism and quantitative method and justifying the adoption. The research then outlines the data collection procedure and methodological approach to answering the three research questions.

Chapter five contains the analysis of the first research question: the impact of internal corporate governance on earnings quality in five GCC countries. The analysis encompasses descriptive statistics, correlation matrix, the results of regression and the discussion of the results.

Chapter six addresses the results of the second research question: the influence of internal corporate governance on firm performance and firm value in five GCC countries. The analysis also includes descriptive statistics, correlation matrix, and the results of regression and the discussion of the results.

Chapter seven concentrates on the results of the third research question, which focuses on the impact of the attendance of royal family members at the board meetings on a firm's performance and firm value in Saudi Arabia (SA). Following a similar format to chapters 6 and 7, descriptive statistics, correlation matrix, the results of regression and the discussion of the results are presented in the chapter.

Chapter eight provides a conclusion to this thesis regarding the background of the study, a brief review of the thesis chapters, contributions to literature and implications to practice. The chapter finishes by discussing the limitation of work and identifies areas of future research.

1.8 Conclusion

One of the aims of good CG is to ensure that corporate disclosures, such as financial accounting reports are accurate and reliable to protect investors. Based on previous explanations, having reviewed the literature concerning the CG of GCC countries, this has not been explored in any depth. In fact, there is a dearth of literature in this region. The thesis investigates the existing gap, explores CG practice and its influence on the region. In particular, the objective of the thesis is to investigate the effects of CG on EQ as well as the firm performance, and firm value in five of the six GCC countries. The researcher does this using three research questions: *Q1: what is the effect of internal CG on EQ in five GCC countries; Q2: what is the effect of internal CG on a firm's performance and firm value in five GCC countries? Q3: what is the effect of attendance of royal family members at board meetings on a firm's performance and firm value in Saudi Arabia?*

The opening chapter is structured as follows: Section 1.2 introduces the background of the topic and provides justification of undertaken research topic. Following that, Section 1.3 provides a brief discussion on the importance of studying corporate governance in emerging markets. Section 1.4 outlines the thesis's aim and main research questions. Section 1.5 focuses on links between the research questions. In addition, features of GCC countries are described briefly in Section 1.6 and the importance of CG for minority shareholders is provided in Section 1.7. Subsequently, Section 1.8 provides an overview of the thesis and described its structure, chapter by chapter briefly.

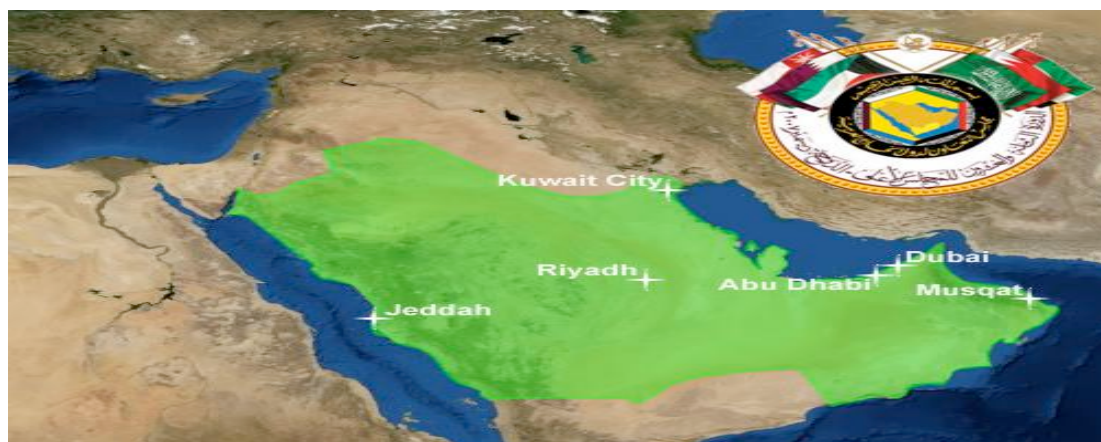
The research aims to draw a clear picture of CG practice and influence on GCC countries in general and at the individual bases, as well as evaluating the framework of CG in the region. The thesis attempts to discover whether the findings are consistent with other emerging countries or, more likely, with some developed countries. Indeed, there is limited evidence of the importance and influence of these variables of CG in the context of GCC countries. Understanding the aspect of CG in GCC countries is relevant and exciting for existing, and future potential investors as companies seek to fund their expansion both domestically and internationally.

Chapter 2

Institutional Setting and Theoretical Framework

2.1 Introduction

The previous chapter introduces the research questions, and structure of the thesis. This chapter divides into two sections, A and B. The first section (A) represents the institutional setting, and the other section (B) focuses on the theoretical framework. The structure of the first section (A) is as follows: subsection A.2.1 offers general information about GCC countries. Following that, subsections A.2.2, A.2.3, A.2.4, describe the definition of CG and provide general information about corporate governance (CG), UK CG and GCC countries CG. Subsection A.2.5 offers comparison among the GCC countries CG and specifies the similarities and differences. Subsection A.2.6 ends the section with the previous literature on GCC corporate governance. The second (B) major part concerns the theoretical basis of the three research questions to explain the effect of CG on EQ and the impact of CG on firm performance and firm value. Scholars from different disciplines such as economics, law, sociology, finance, accounting (Jensen & Meckling 1976; Richards & Stearn, 1999; Useem 1984; Fama, 1980; Boyd 1995) contributed to the establishment of governance theory and research (Kiel & Nicholson 2003). There is no universal agreement on the best theoretical basis for CG studies. Nevertheless, based on a review of the literature, the theoretical framework used in the research questions is agency theory to explain and analyse the three research questions. The structure of this section is as follows: subsection B.2.1 explores the definitions of CG and offers the operational definition of CG for this thesis. Subsection B.2.2 reviews agency theory. Subsection B.2.3 summarises the chapter.



A brief background of GCC countries is needed to have some understanding of the institutional setting. In this section, some light is shed on GCC countries in general, and brief information about each country is provided. The Gulf Cooperation Council (GCC) countries, was founded in 1981 and consists of six Arab states namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia (SA), and the United Arab Emirates (UAE), all of which are Gulf Monarchies. GCC countries are located in the Middle East. Specifically, the Arabian Peninsula and their total population amounts to 50.1 million people (Amico, 2012). They also share similar Arabian culture and traditions, the faith of Islam, social structures, wealth, political development (Monarchy), and demography (Baydoun et al., 2013). The primary purpose of the establishment of GCC was to enhance the cooperation and integration as well as to strengthen their economy and development through their participation in different fields such as the economy, financial affairs, education, cultural activities, social, medical, agricultural development, research development and joint projects. Between them, they can issue similar policies and regulation to achieve unity (Amico, 2012). It is also worth mentioning that each country has an independent government and their own independent currencies.

GCC countries are developing countries in Asia but enjoy prosperity due to natural resources and the rapid development of their capital market (IFC, 2008). Some features make GCC countries interesting when examining the effect of CG on EQ, firm performance and firm value. Recently, the GCC countries share in the world's GDP has doubled to 2.2 percent, which refer to the development of a dynamic economy (Held & Ulrichsen, 2013). This also increases the significance and importance of GCC countries in the global economy (Nugée & Subacchi, 2008). In addition, they have followed some global norms and standards to work

with international organisations. This engagement with the world raises the status of the region, which brings more benefit and increases regarding trade and investment. This marks the region as “one of the most prosperous in the world” (Nugée & Subacchi, 2008).

After the oil boom in 1970, GCC countries grew fast economically and financially (Arouri et al., 2014). Therefore, petroleum and natural gas are the backbones of the economy of GCC countries 40 percent of oil reserves (Held & Ulrichsen, 2013) and 15% of natural gas (AlKuwari, 2009) in the world are located in GCC countries. In relation to international production and the export of crude oil, GCC countries represent 15 percent and 20 percent respectively (Alibrahim, 2004). Thus, they are an influential player in the global energy market in the global economy as they hold 40 percent of global oil reserves (Nugée & Subacchi, 2008). However, the demand for oil is reducing, and so they overly dependent on a single commodity if they do not move their economies away from a single source of revenue. In recent years, GCC countries have changed and developed their economies and stock markets to be more diverse, especially to attract more foreign investors. GCC countries are likely to receive closer attention in the global financial market when the world’s largest company such as Saudi Aramco will be potentially listed in Saudi stock market next year. In fact, GCC countries have made progress in the business as World Bank Doing Business ranked GCC countries as the top of MENA¹⁰ countries (Henry & Springborg, 2010). However, there are different levels of dependence on oil and the liberalisation of GCC countries; UAE and Bahrain depend less on fuel and are more liberal than SA and Qatar (Arouri & Fouquau, 2009). The governments are developing non-oil sectors growing from 4.8 percent in 1997-2002 to 7.3 percent in 2003-08 and the investment of private sectors extend eightfold from 300 billion in 2004 to 2.4 trillion in 2008 (Chowdhury & Maung, 2013). GCC countries have been recognised as the financial and commercial hub in the Middle East (Baydoun et al., 2013). According to Eulaiwi et al., (2016) as they are fast-growing regions, GCC countries expanded their equity markets by increasing the number of listed companies from 473 in 2005 to 705 in 2013.

The region enjoys stable currencies and price levels. The regulatory bodies play significant roles in improving the legal environment and in reforming the implementation of governance (Eulaiwi et al., 2016). They have shifted their economic model from “resource-based economic model to private sector focused and production oriented economic model” (Chowdhury & Maung, 2013). For instance, there has been noticeable growth in stock markets in GCC countries between 2002-07, but market capitalisations, initial public

¹⁰ Acronym of Middle East and North Africa region (MENA).

offerings (IPOs), and trading values declined in 2007 and 2008 (Amico, 2012); leading to a financial crisis which caused extreme volatility and liquidity issues. Notably some GCC countries were affected more than others during the financial crisis. Dubai has been affected more severely by the financial crisis compared to other cities in the UAE and other GCC countries. Abu Dhabi (the capital of UAE) rescued Dubai from this crisis (Held & Ulrichsen, 2013). However, scholars argue that the effect of the recent financial crisis in 2008 is hardly recognised compared to other developed and established developing countries (Amico, 2012). The legal system in GCC countries is based on both Shari law and civil law “these systems are unified in a single structure” (McLaurin, 2007)

There are similarities and differences between GCC countries as developing countries and other developing countries. Like many other emerging markets or developing countries, GCC countries suffer from the inadequate protection of investor’s rights, insufficient legal systems, weak and illiquid stock markets and, government intervention. There is also the problem of the lack of quality information, economic uncertainty (Reed, 2002; Ahunwan, 2002; Tsamenyi et al., 2007; Young et al., 2008), and government of listed and unlisted companies and different sized companies (large, medium, and small companies) (OECD, 2005; Tricker, 2009) and non-transparent communication. Equity markets in the region less established as those in developed countries. These also characteristics of countries follow the civil law legal system. Families dominate the board of directors (Arouri et al., 2014; Rabelo & Vasconcelos, 2002). For instance, when firms are under family ownership, the controlling family, specifically the head of the family intervene into overseeing the management, decision-making, selection of management (OECD, 2005; Tricker, 2009). Due to family ownership of the firms, controlling family prefer debt financing over equity financing to maintain their ownership and control of the firm.

The differences between GCC countries and other emerging markets are as follows: GCC stock markets typically have a smaller number of listed firms, lower diversification, and have lower connections with international markets (Yu & Hasan, 2008). They are also “overly sensitive to regional political events” (Held & Ulrichsen, 2013). They also have modest competition for listings companies, small markets, high levels of retail investment, diversification of financial products and low free floats (Amico, 2012). The state-owned stock markets regulate, monitor and enforce CG code in listed companies (OECD, 2012). On average, GCC companies have few independent directors on the board compared to other countries. According to the Union of Arab Banks (2003), investigations of the CG practice in public listed companies in Kuwait, SA, and the UAE, besides other countries, namely Lebanon and Jordan; find that there are few truly independent directors on boards. Also, firms

are more likely to follow CG code symbolically in the selection of independent directors and to copy CG style in the western countries (Ferrarini & Filopelli, 2014). These countries are major suppliers and players of energy markets and are planning to have a common currency (Al-Ajmi, 2009). They have a high number of foreign workers; with 90 percent, 70 percent, 50 percent and 30 percent expats in UAE, Qatar, Kuwait, Bahrain, Oman and Saudi Arabia respectively (Held & Ulrichsen, 2013). The participation of institutional investors is low compared to other developing countries such as China and other developed countries such as the US, UK, and France (Kiel & Nicholson 2003). This increases the volatility of the market because retail investors are more inclined to withdraw capital quicker and the price quality is weak (Amico, 2012). However, institutional investors are not always right participants as some focus more on short-term investment objectives and do not have the ability and interest to promote CG. In addition, institutional investors are less developed in the region and do not disclose their voting results to the public or regulators, as they do not have a clear policy regarding this issue (Held & Ulrichsen, 2013).

The Arab culture, to which GCC countries are a part of, suffer from trying to keep such information secret (Gray, 1988) (e.g. “details of their business affairs”) (AL-Rashed, 2010) and so communication is not transparent (OECD, 2005; Tricker, 2009). Also, the concentration of ownership is in the hands of state, wealthy families, families with political connections, Government officials and the royal family (Sourial, 2004). Royal family members in Qatar present in 17.5 percent of companies in Qatar (Hakawi & Daidson, 2008)¹¹. The power in GCC countries is in the hands of ruling families, and they can have direct change and force (Nugee & Subacchi, 2008). Furthermore, the families dominate the board of directors¹² with around 28.2 percent and 76.3 percent in Dubai and Qatar respectively (Hakawi & Daidson, 2008). According to Henry & Springborg (2010), royal family members are more active in private sectors. They have direct influence and can access the resources of the government. Stock markets in GCC countries are highly volatile, reflecting the investment risk of these markets (Al- Hadi et al., 2016). In addition, the boards in GCC countries tend to have a simple or flat structure, which is common in many countries (Haniffa & Cooke, 2002). According to The National Investor (TNI), (2008), families in GCC countries controlled a high percentage of the equity market. Besides, TNI (2008) finds that at least 75 percent of firms in GCC countries have at least two board members from the same family, and in some cases, the family members thoroughly dominate the board of directors (Abdallah & Ismail, 2017). Thus, family owners, especially founding owners, control the process of decision-

¹¹ This percentage represents listed and non-listed financial and non-financial companies in 2007.

¹² Government officials and royal family members dominate the board of directors and firms are governed by their founders, their descendants or close relatives (Pierce, 2012).

making by using their concentration of ownership to increase their voting power to influence the nomination of firm managers and directors (Sirmon et al., 2008). Due to high ownership concentration, public companies rely on debt financing from the bank as external resources for funding (Al- Rashed, 2010). Therefore, in general, the casual relationship is used to facilitate business transactions. Hiring and promotions tend to rely heavily on favouritism as does transferring assets and intermarriages, which can occur between influential families (Mazaheri, 2013, OECD, 2012). The efficient market rewards or punishes firms based on their performance. Many studies conducted within the region have concluded that not all the GCC markets are efficient (Held & Ulrichsen, 2013). Multiple directorships is also common in GCC countries, which may impair effectiveness of CG practice (Ali et al., 2007) and the effectiveness of board monitoring (Core et al., 1999; Ferris et al., 2003; Fich & Shivdasani, 2006).

The expectation of profitability and expansion of opportunities attracts many investors to GCC stock markets (Mansur & Delgado, 2008). Thus, the extensive understanding of CG practice and influence is essential to encourage potential investors, especially foreign and minority ones, to participate in one of the fastest-growing developing markets because strong CG provides investors with information which boosts confidence in the market and their value. GCC countries have a good relationship with Western countries and try to adopt some standards such as international financial reporting standards (IFRS). Except for Saudi Arabia, all listed companies in GCC countries require companies to follow IFRS for financial reporting (AL-Qahtani, 2005). Saudi Arabia requires the IFRS for listed and unlisted banks and insurance companies whereas Saudi Organization for Certified Public Accountants (SOCPA) standards are required for all other companies (Alghamdi, 2012). A brief understanding of each country is also essential. However, the discussion of Kuwait is eliminated due to insufficient data available.

A.2.3.Individual Country

1) Bahrain

In terms of geographical area and population, Bahrain is the smallest country among the GCC countries, and in 1971 it became independent from Great Britain. The capital of Bahrain is Manama and the currency is Bahraini Dinar. Shaikh Hamad Bin Isa AL Khalifa rules the country. After the boom of oil prices in 1970, the economy has modernized (Joshi & Wakil, 2004) and its economy depends on oil and natural gas but not to the same extent as other GCC countries. The Bahraini government is one of the first governments to allow a foreigner to invest in the economy and to enable them to own around 49 percent of capital (Sourial,

2004). Bahrain has created a thriving financial market operating both onshore and offshore operations (Joshi & Wakil, 2004).

However, growth, sectoral diversification, development and activities of Bahraini stock market are the lowest among GCC countries. Bahraini stock market is overlooked and is not favored regionally and internationally by investors. Even domestic people in Bahrain redirect their investment to other regional markets as they are looking for a quick return through new IPO. Also, there are no real estates and oil, and gas companies are listed on the Bahraini stock market (Henry & Springborg, 2010).

2) Oman

The capital of Oman is Muscat, and the currency is Omani Riyal. Sultan Qaboos Bin Said Al Said rules the country (Al- Rashed, 2010). It also gained its independence from Great Britain in 1971. The royal family in Oman is unlike ruling families in GCC countries regarding solid family and tribe base (Henry & Springborg, 2010). Oman does not have the same level of oil and natural gas reserve as other GCC countries. However, after the rise in oil prices in 1970, the economy of Oman has become more modernized. Oman expects that by 2020 there is a high probability the oil reserves will deplete. Therefore, the government in Oman has invested heavily in non-oil sectors. The policymakers have adopted different policies and engage in various programs (privatisation programs) and agreements (free trade agreement) to enhance its economy.

Even though the Oman stock market has low free float ratio compared to other GCC countries, Oman has one of the top regulations and transparency in the stock market. Also, in 2006 the stock market in Oman has been included in the Euronext exchange among 14 other exchanges, which led to furthering its efficiency and transparency and meeting the international standard (Henry & Springborg, 2010).

3) Qatar

Qatar became independent from the United Kingdom in 1971. The capital of Qatar is Doha and the currency is Qatari Riyal. Sheikh Tamim Bin Hamad AL Thani rules the country. Qatar is the world's second-largest country with gas reserves, which account for five percent (Hossain & Hammami, 2009). Qatar enjoys diversity in its economy and natural resources, which represent one of the fastest growing economies. Due to the country's wealth, the Qatari government is very efficient in developing economic infrastructure and income resources and in providing an incentive to foreign investors to participate in projects (Hossain & Hammami, 2009). In 2005 the government established the Qatar Financial Center, which aims to promote a healthy economy, attract more foreign investors to participate in different sectors and to

allow foreign investors to own and trade 25 percent of shares of listed companies. It also helps to integrate its economy with the international economy (latter & AL-Khater, 2007). Therefore, the investment opportunities in Qatar have grown rapidly, especially in oil and gas sectors. Also, there is a strong correlation between the performance of Qatari stock market and its oil price due to the influence of trading value of oil and gas companies (Al- Rashed, 2010). The stock market needs to further strengthen transparency and regulations (Henry & Springborg, 2010).

4) Saudi Arabia (SA)

Regarding its geographical area and population, Saudi Arabia is the largest among GCC countries. The capital of Saudi Arabia is Riyadh, and the currency is Saudi Riyal. King Salman bin Abdulaziz AL Saud rules the state. Saudi Arabia is the largest country in the Middle East and has one of the largest oil reserves in the world, which is around 25 percent (Held & Ulrichsen, 2013). Therefore, it is one of the world's largest exporters of oil and the economy of Saudi Arabia depends heavily on oil revenues. For instance, for Saudi Arabia, oil represents 85 percent of export, 75 percent of government revenue and 35 percent of gross domestic product (GDP) (Hussainey & Al-Nodel, 2008). Among Arab countries, Saudi Arabia has the largest GDP, economy and capital market and it is part of the significant G20¹³ economy. The market capitalisation of the stock market (Tadawal) represents two-fifths of the MENA region and more than two-thirds by traded value (Alsaeed, 2006). Many investors in Saudi stock market seek a short-term return (Henry & Springborg, 2010). However, the stock market is behind other emerging stock markets such as BRICS¹⁴ countries. Saudi Arabia's economy is relatively open as the market is based on a free market system and encourages direct foreign investment (FDI) (Al-Razeen & Karbhari, 2004). According to Held & Ulrichsen, (2013) Saudi Arabia is the most important country in the Arab world for foreign direct investment. In 1990, the policymakers introduced the privatization program for state-owned companies (Basher & Sadorsky, 2006) and in 2000; they allowed foreign investors to invest in the country (Naser & Nuseibeh, 2003).

¹³ Group of 20 (G20) is an international forum of 20 major economies, which account for 85% of the global economy.

¹⁴ BRICS is an acronym for five major emerging economies namely Brazil, Russia, India, China and South Africa.

5) The United Arab Emirates (UAE)

In 1971, UAE established its federal union and gained its independence from the UK. The federation includes seven Emirates namely Dubai, Abu Dhabi, Sharjah, Ras AL-Khaimah, Ajman, Fujairah and Umm Al- Qaiwain. The capital of UAE is Abu Dhabi, and the currency is Dirham AED. Shaikh Khalifa bin Zayed AL Nahyan rules the country. Each Emirate is governed by a different royal family and has its budget, but they have general security, immigration and foreign policies (Held & Ulrichsen, 2013). Regarding oil reserve, it has the six largest oil reserves in the world (Obay, 2009). In terms of population and gross domestic product (GDP), it is considered the second largest in the GCC countries. The economy of UAE is the most liberal, open, and follows the free market economy model. Due to its liberalisation and openness, UAE is the most attractive country in terms of companies investment compared to other countries in the MENA region (Aljifri, 2008). However, the stock market has low sectoral diversification, a limited number of companies listed and a limited amount of stock. (Henry & Springborg, 2010) It is essential to shed light on two crucial Emirates (Abu Dhabi and Dubai) in the UAE. Abu Dhabi is smaller but is the wealthiest emirate regarding oil and net income levels. As the capital of UAE, it holds a more significant position politically than Dubai. Dubai is the second largest emirate in the UAE and has established its international reputation. It has the highest living expenses and is well established in overseas investment and property markets. It is considered to be the hub of business for numerous national and international companies (Naser & Nuseibeh, 2003). However, Abu Dhabi is well known for long-term investment. Dubai has a less strict legal system compared to Abu Dhabi, yet Abu Dhabi attempts to maintain a more traditional style whereas the west has influenced Dubai. Dubai has been affected the most by the financial crisis, and Abu Dhabi had to rescue Dubai to eliminate damages from the financial crisis (Held & Ulrichsen, 2013). Based on the globalisation index, GCC countries are important countries among globalised Arab countries. UAE is the most globalised country among the GCC countries and Dubai is the most globalised city in UAE. However, Dubai has lost its traditional identity due to its greater openness to Western cultural values. This reflects the importance of GCC countries as they “are no stranger to global attention” and attracting global attention due to “its huge energy potential but also its global financial clout, expanding capital markets, innovation cities, and growing regional impact.” Also, the global financial crisis has not had much effect on the plans of the country’s development (Held & Ulrichsen, 2013).

Table 2.1. GDP per capita of GCC countries ¹⁵						
	2009	2010	2011	2012	2013	2014
Bahrain	19,166.7	20,386.0	22,238.7	23,063.1	24,378.9	24,855.2
Oman	17,518.8	19,920.6	21,164.3	21,533.8	20,011.3	19,309.6
Qatar	61,463.9	70,870.2	89,115.9	94,407.4	96,077.0	96,732.5
Saudi Arabia	15,655.1	18,754.0	23,256.1	24,883.2	24,646.0	24,406.5
UAE	32,905.1	34,341.9	39,901.2	41,712.1	42,831.1	43,962.7

The table above shows the GDP per capita for GCC countries. Overall, Qatar has the highest GDP per capita compared to other GCC countries. After Qatar, UAE has the second highest GDP per capita compared to others.

A.2.4 Corporate Governance in General

A.2.4.1. Definition of Corporate Governance

There is a lot of literature in CG area, however, no universal definition is agreed. Different definitions of CG appear in the public and literature depending on authors' perspectives. The definitions may vary slightly or fundamentally or may have narrow or broader focus. Specifically, these definitions vary with regard to defining the accountability and responsibility of corporate boards and management, which have to discharge their obligation to different groups such as shareholders. The narrow definition of CG focuses only on the accountability of corporate to shareholders and stakeholders. For instance, Monks & Minow, (1995) define CG as the relationship among various participants (chief executive officer, management, shareholders, employees) in determining the direction and performance of corporations. Shleifer & Vishny, (1997) explain CG as it deals with mechanisms to ensure that investors in corporations get a return on their investment. OECD, (2004) defines CG as the process by which companies are directed and controlled. The CG structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and

¹⁵ Source: Amico, (2014).

procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance. Sobel (2005) explains CG as a process carried out by the board of directors and its related committees, on behalf of and for the benefit of the company's stakeholders to provide direction, authority, and oversight to management. Tricker (2009) presents a different view of CG as exercising power over corporate entities. Goergen, (2012) explains CG as dealing with the conflicts of interests between the providers of finance and the managers; the shareholders and the stakeholders; different types of shareholders (mainly the substantial shareholder and the minority shareholders); and the mitigation of these conflicts of interests. Brown et al., (2012) view CG as a function of the allocation of power within a corporation between its stockholders and its board of directors.

Furthermore, the general definition of CG, which takes a broader view, is "*the system by which companies are directed and controlled*" (Cadbury, 1992). This definition is considered the most apparent interpretation of CG. All of these definitions above highlight that CG encompasses a set of mechanisms. However, each definition emphasizes different perspectives. Because the core focuses on shareholders' perspective, the board of directors and ownership structure, the thesis combines two definitions of CG as the primary definition to reflect the notion of three research questions. Thus, for the thesis, the operational definition is that CG is a set of mechanisms that involve boards of directors, committees and ownership structures to reduce conflict of interest maximize the benefit of shareholders and oversee management behaviour (Sobel, 2005; Goergen, 2012).

A.2.3.2. Corporate Governance in General

For the last three decades, the research of CG is well-known and has expanded due to some recent fraud cases such as Enron (2001), WorldCom (2002) in the US and the scandals of BCCO bank and Robert Maxwell pension funds (Jones & Pollitt, 2001) in the UK, Parmalat and Royal Ahold in EU (Rockness & Rockness, 2005). Such companies in the GCC countries have collapsed as well due to the problem of fraud and weak CG including for instance, in Oman like Oman and Emirates Investment Holding (2001), and National Rice Mills SAOG (2002) (Al- Matari et al., 2012). In 2008, three audit failure cases were reported of listed companies in Bahrain. ALGosaibi SAAD Group in Saudi Arabia announced its bankruptcy due to failing to meet their obligations to the financial institution (Eulaiwi et al., 2016). Thus, the bank demanded an increase in disclosure, transparency, and better CG. The main problem of these cases of fraud and collapse is the separation that occurs between the ownership and

control. Also, the recent financial crisis has caused fluctuations in the stock market as well as other financial challenges (Kirkpatrick, 2009). A significant amount of research focuses on CG after the financial crisis in 2008. Due to an increase in economic problems in developing countries such as a volatile economic environment and poor CG, there is more recognition of the value of effective and robust implementation of CG, which has been put in place through enforcement (Oman & Blume, 2005). The region has been affected by some corporate failures after the financial crisis in 2008. In late 2009, following the drop in oil prices and the Dubai debt crisis, Arab Spring in 2011 (Amico, 2012) was a further shock which contributed to weakening the GCC capital markets (Khamis & Senhadji, 2010, Onour, 2010).

Consequently, CG is a significant concern for investors. Proper implementation of CG practice is promising as it may lead to achieving sustainable economic growth and transparency, which will boost investor confidence and stabilise the stock market (Oman, 2001). Good CG enhances firm performance and efficiency through the wise allocation of firm's resources, a fair return to investors and better management (Amico, 2012).

A.2.3.3 GC in The UK

In the UK, the term CG was used around 1984 after Tricker published his book on *corporate governance practice, procedures and powers in British companies and their board of directors* in 1984. In addition, after some collapses and scandals in 1980 and 1990 and the Asian financial crisis in 1997-98, the UK has realised the importance of developing CG. The CG structure in the UK has been developed through several reports. The reports of CG from the Cadbury Report (1992) to more recently combined codes focus on agency problems and how the mechanisms can reduce these agency problems to maximise shareholders' wealth. The main focus of the code is fairness, accountability, transparency, board attributes, the responsibility for stakeholders' interest and complying with the law (Coombes & Wong, 2004).

The first such report was the Cadbury report: a committee of the financial aspects of CG was established in 1992 (Cadbury Report, 1992). The Cadbury report created some recommendations for composition and the operation of the board and establishment of its committees. The report highlighted the importance of non-executive directors and the transparency of financial reporting. The recommendations were introduced into listed companies on the London stock exchange (LSE) in 1992.

After the Cadbury report, some reports have been issued such as Greenbury committee in 1995. The Confederation of British industry established this committee. The focus of this committee was to set a guideline and recommendations about determining the remuneration of directors.

In 1998, the Hampe committee was established to review the implementation of recommendations from the Cadbury and Greenbury committees. The recommendation of the Hampe committee added little to other suggestions but highlighted the need for balance between accountability and prosperity. In 1999, the Institute of Chartered Accountants in England and Wales set a committee and published a report, which focused on risk management and internal control while including the recommendation of internal control from the Hampel report (Amico, 2012).

After Enron and WorldCom collapsed in the USA in 2003, the Smith committee was formed which focused on the role and effectiveness of non-executive members and the role of the audit committee. One of the recommendations of the Smith Committee was that the audit committee should compose of at least three independent directors and at least one of these members should have financial or accounting expertise. Also, the Higgs Committee (2003) reviewed the effectiveness of non-executive directors. At the same time, Financial Reporting Council (FRC), incorporated all committees' recommendations and published the code of CG in the UK (combined code, 2003). Since 2003, the combined code has been revised several times to make it more transparent for investors.

The combined code defined the role and composition of the board and the development of internal control. Also, the combined code requires at least one-third of any board to be non-executive members or at least half of the board members to be independent in some way. The code also supports that there should be no convergence of power to one or two individuals. It focuses on the separation between the role of CEO and chairman and appointing non-executive and independent directors, evaluating the efficiency of the board, establishing the audit committee, remuneration committee, and nomination committee. The code also requires the presence of at least three non-executive directors on the audit committee, and a majority of these should be independent. The combined code follows, comply or explain (soft law). Although it is soft law, there is pressure from the markets and institutional investors on listed firms to ensure compliance.

A.2.4.4 CG in GCC Countries

“Corporate governance framework in the Middle East and North Africa (MENA) have witnessed a significant transformation over the last decade motivated by the need to improve the integrity of local markets and align governance practice with relevant international standards”(Amico, 2012).

Codes of CG are considered necessary mechanisms to create and foster public and investors' trust besides promoting good CG practice. Different countries have different CG quality depending on the internal environment and characteristics of the country such as cultural value, financial infrastructure, the economic, legal and regulatory system (Stulz & Williamson, 2003; Hope, 2003). The level of development of the economy, information availability (Cooke & Wallace, 1990, Mueller et al., 1994), and enforcement of mechanisms within the regulatory framework also vary (Wallace & Gernon, 1991; Radebaugh & Gray, 2006). All of these affect the management disclosure practice (Adhikar & Tondkar, 1992).

The establishment of CG codes in the region was encouraged by different organisations, international and independent bodies. The World Bank (WB) and International Monetary Fund (IMF) pushed countless countries around the world to adopt and establish a CG code (World Bank, 2009). Also, the Organization for Economic Cooperation and Development (OECD) provide support to MENA countries to develop and promote CG in the region (Stulz & Williamson, 2003; Hope, 2003). GCC countries are also members of the World Trade Organization (WTO), which gives a significant stimulus to the advancement and promotion of good CG practices in regions (Baydoun et al., 2013). All these bodies encourage the development of the culture to protect investors and good CG practice because the proper implementation of CG attracts investors, increases firm value and stabilises the stock market (Held & Ulrichsen, 2013).

In recent years, in the Middle East in general, and GCC countries, in particular, high standards of CG are more recognised, even though none of these countries fully implemented its CG code due to weak law enforcement (Al-Rashed, 2010, Saidi, 2011). Policymakers in GCC countries took action to introduce and enforce high CG standards, which, in line with OECD principles, achieve the best CG system in the region (Baydoun et al., 2013). All six members of the GCC established a CG code to guide listed companies towards the adoption of the best principles and practices of CG. Oman was the first country to develop its CG in 2002, followed by Saudi Arabia in 2006, Qatar in 2009, UAE in 2007, Bahrain 2010 and

Kuwait in 2013. A number of these codes went through some reforms and development such as codes in Saudi Arabia, UAE, and Oman.

The model of CG in GCC countries reflects the “market model” which emphasises the importance of maximising shareholder wealth and value (Eulaiwi et al., 2016). The characteristics of market model CG are as follows: the system is one tier where the shareholders select the most significant governance body, which is a board of directors. Individual shareholders do not interfere with the directors of the firms (Keasey & Wright, 1993), which also means that the controlling shareholders can influence the firm’s directors (Eulaiwi et al., 2016). Thus, the power of individual shareholders is weakened and controlling shareholders have substantial power over the firm’s affairs. The structure of ownership and the role of independent directors on the board of directors, among other factors, are the most significant aspects of CG to monitor management behaviour.

Also, all GCC countries have separate codes for banks and financial institutions. The table 2.2 below displays information on CG in GCC countries in terms of the date of issue, the code enforcement status and other codes or guidelines issued.

Table 2.2. Overview of Corporate Governance in GCC Countries				
Country	Date of issue	Legal status	Name of code	Other codes and guidelines
Bahrain	2010 Implemented in 2011	Comply or explain	CG code	Guidelines for banks
Oman	2002 Amended in 2003 Working in further revision	Mandatory	Code of CG for MSM ¹⁶ listed companies	Guidelines for banks Code of insurance companies
Qatar	2009	Comply or explain	CG code for companies listed in a market regulated by the Qatar financial markets authority	Guidelines for banks and financial institutions
Saudi Arabia	2006 Amended in 2009	Mandatory	CG regulations in the Kingdom of SA	Guidelines for banks
UAE	2007 Amended in 2010	Mandatory	Governance rules and corporate discipline standards	Code for banks Code for SMEs

¹⁶ MSM- Muscat Securities Market.

Except for Bahrain and Qatar, the code of CG in Saudi Arabia, Oman and UAE is mandatory (comply or pay the penalty). The codes in Bahrain and Qatar are like some CG codes in some Western economies such as the UK who use a ‘comply or explain’ approach; meaning that companies have to comply with provisions of the code or explain the reasons as to why they have not. This also means that the GCC countries differ in the enforcement of CG code. However, it is worth noting that the codes of CG in GCC countries were voluntary in the beginning, but recently Oman, Saudi Arabia, and UAE have enforced it as a mandatory requirement for publicly listed companies.

Again, except for Bahrain, all GCC countries have separate authorities that issue and review CG. The Central Bank of Bahrain (CBB) releases the code of CG in Bahrain. Oman is the first country to have established a capital market authority in 1998, followed by the establishment of Emirate securities and commodities authority in UAE in 2000 (Amico, 2014). Table 2.3 below shows the name of the authority and establishment date in each of the GCC countries.

Table 2.3 Overview of Capital Market Authority in GCC Countries

Country	Name of authority	Year of Establishment
Bahrain	Ministry of industry and commerce in cooperation with the Central Bank of Bahrain	2006
Oman	Capital market authority (CMA)	1998
Qatar	Qatar financial market authority	2005
Saudi Arabia	Capital market authority (CMA)	2003
UAE	Dubai financial services authority Securities and commodities Authority	2004 2000

Saudi Arabia capital market (Tadwual) is the oldest capital market in the region. The Saudi capital market (Tadwual) was set up in 1984. Following that, the Bahrain stock exchange was founded in 1987, the Muscat Securities market of Oman in 1988 and the Qatar exchange in 1997 (Baydoun et al., 2013). UAE is the last country to establish its capital market in 2000 and 2005. It has three stock markets; two in Dubai (Dubai Financial market and Nasdaq Dubai) and one in Abu Dhabi (Abu Dhabi securities market). The UAE is the last one to establish its capital market but has created more specific CG codes to cover different enterprises such as banks, financial institutions and small and medium enterprises (SME). This indicates that the UAE takes the lead in a rapid change to cope with world financial challenges and modifications.

Market capitalisation and the number of listed companies vary across GCC countries (Stulz & Williamson, 2003; Hope, 2003). Market capitalization illustrates the range from the lowest in Bahrain to the highest in Saudi Arabia with \$421 billion. The Saudi Arabian stock market is the largest, most active and most liquid in the GCC countries while Bahrain is the smallest and the least liquid compared to other GCC countries. Saudi Arabia represents 45 percent of the total market capitalisation of GCC stock markets (Held& Ulrichsen, 2013). However, Saudi's stock market is still small by global standards. Qatar has the second highest market capitalisation with around \$142 billion, Abu Dhabi stock market capitalisation comes in at \$133 billion, while Dubai's financial market capitalisation is about \$98 billion. Saudi Arabia has the most substantial number of listed firms with 175 firms in the capital market followed by Oman, which has 115 listed companies in the capital market. Bahrain has the lowest number of listed companies compared to other GCC countries. It should be noted that capital market in GCC countries are state-owned apart from Kuwait where the capital market is public. Table 2.4 below summarises the differences in capital markets among GCC countries.

Table 2.4. Overview of Capital Markets in GCC Countries¹⁷

Country	Capital market	Established (year)	Market capitalization \$ ¹⁸	Number of listed companies ¹⁹	Type of ownership
Bahrain	Bahrain stock exchange (BSE)-Bahrain Bourse	1987	19	42	State-owned
Oman	Muscat securities market (MSM)	1988	41	115	State-owned
Qatar	Qatar exchange called Doha Securities Market (DSM)	1997	142	424	State-owned
Saudi Arabia	Taduwal	1984	421	175	State owned
UAE	Dubai financial market (DFM)	2000	98	60	State owned
	Abu Dhabi securities market (ADX)	2000	133	66	State-owned
	Nasdaq Dubai (DIFX)	2005	23	6	State owned

The actual regulated trading in the stock market in GCC countries started in mid-1980. The stock markets of UAE and Qatar are included in Morgan Stanley Capital International²⁰ (MSCI) in May 2014 (Abdallah & Ismail, 2017), which is an emerging market index.

Some prior studies claim that concentration ownership reduces agency cost (Shleifer & Vishny, 1997). However, others argue that the concentration of ownership and friendly relations in business creates an environment for an insider to use the company assets for their benefit, which negatively affects the financial health of the company (Anderson, & Reeb, 2003). Thus, a stronger legal system and more regulation in the business environment tend to

¹⁷ Source: Amico, (2014).

¹⁸ Market Capitalization of listed domestic companies (current US \$)(The World Bank)
<http://data.worldbank.org/indicator/CM.MKT.LCAP.CD?end=2015&page=1&start=2013>
<http://data.worldbank.org/indicator/CM.MKT.LCAP.CD?end=2015&page=1&start=2013>

¹⁹ Listed companies in domestic Markets.
<http://data.worldbank.org/indicator/CM.MKT.LDOM.NO?end=2015&page=1&start=2013>
<http://data.worldbank.org/indicator/CM.MKT.LDOM.NO?end=2015&page=1&start=2013>

²⁰ It is one of the first global market indexes. This emerging market index follows the stock market performance of 23 developing countries namely: Brazil, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the UAE. This index explains 13% of total market capitalization in the world (Amadeo, 2016).
<https://www.thebalance.com/msci-index-what-is-it-and-what-does-it-measure-3305948>

have high equity investment and lower concentrate ownership because the minority shareholders feel more protected and confident about their investment (La Porta et al., 2002; Hamdani et al., 2012). The protection of minority shareholders is essential because one of the implications of their protection is a high firm value (Laporta et al., 2002). Also, for the companies to survive, grow, expand, innovate and diversify, they need to raise capital through banks or equity. However, equity markets would fail and would not develop without proper protection for investors because, adequate protection and information, minority investors would be willing to invest (World Bank, 2016). Table 2.5 below shows the strength of minority investor protection in GCC countries and MENA region.

Table 2.5. The Strength of Minority Investor Protection²¹

Country	Strength of minority investor protection index (0-10)	Extent of conflict of interest regulation index (0-10)	Extent of shareholder governance index (0- 10)
MENA ²²	4.5	4.7	4.3
Bahrain	5	5.3	4.3
Oman	4.7	5.3	4.0
Qatar	2.7	2.0	3.3
Saudi Arabia	5.8	6.7	5.0
UAE	7.5	7.7	7.3

World Bank²³ measures the strength of minority shareholders' protection to evaluate the ease of doing business around the world. The index of minority shareholders protection, which considers publicly listed companies while the board of directors manages a large number of shareholders, is based on two indices (conflict of interest and shareholder's right in CG). The value indicates that the highest value refers to the stronger regulation for minority shareholders protection. According to the table, Qatar has the lowest value for the protection of minority shareholders where UAE has the highest value.

Monitoring management, ensuring efficient allocation of firm assets and minimising self-dealing (expropriate minority shareholders) are essential elements in CG. Thus, better protection of shareholders leads to better financial market performance and fair distribution of earnings leads to better firm performance and firm value. Additionally, good CG ensures the efficiency of company resources and a better relationship between management, majority shareholders and minority shareholders, which leads to sustainable long-term economic growth.

A.2.4.5 Comparison of Corporate Governance Codes in GCC Countries

²¹ Protecting Minority Investors. Doing Business. (The World Bank, 2016). <http://www.doingbusiness.org/data/exploretopics/protectingMminorityMinvestors>

²² GCC countries in part of MENA region.

²³ Protecting Minority Investors. Doing Business. (The World Bank, 2016).

The study reviews the CG codes in GCC countries except for Kuwait. The study eliminates the CG code in Kuwait for two reasons: insufficient data and the code of CG are not yet implemented. By and large, these codes are similar in defining the composition of the board of directors and establishment of an audit committee. The first aspect of CG code is the presence of an- executive directors. While Bahrain requires half of the board of directors to be non-executive, other GCC countries, namely Oman, Qatar, Saudi Arabia and UAE require that the majority of the board of directors be non-executive. The second important aspect of CG is an independent director. All countries require at least one-third of their board of directors to be independent as well as more specifications under the CG code in Bahrain and Saudi Arabia. While Bahrain recommends at least three independent directors for non-controlled companies or one-third of independent directors in companies with controlling shareholders, Saudi Arabia requires the presence of one-third of independent directors or two independent directors, whichever is greater (Shehata, 2015) discusses the difference of definition of board independence in GCC countries using seven different criteria based on UK CG code. If these are not met, the directors are not considered independent directors. In relation to being former employees or senior executives, Qatar is the toughest where the members must not have held these positions within the previous three years; other GCC countries allow two years and one year in the case of Bahrain for board independence. The code of GCC countries defines the independence with regard to having a material business relationship directly or as a partner shareholder or senior employee of a body that has such a relationship. Only Bahrain and UAE define the independence with the financial aspect of the company. Family connections are considered about the definition of board independence in all codes. Only Bahrain and Qatar boards define the duration of tenure of being independent; the former specifies a maximum of six years and the latter nine. Except Oman, all GCC countries address holding a significant number of shares. Only Qatar and Saudi Arabia have addressed cross-directorship.

Concerning the third aspect of CG code, which is the role of CEO and chairman, all these countries also require the separation between the position of chairman and CEO. The fourth aspect of CG code is board size. Except for Bahrain and Saudi Arabia, the remaining GCC countries have no requirements on the size of the board. In relation to Bahrain and Saudi Arabia, the former suggests that the board should not have more than 15 members while the latter required that the board should have between three to eleven members. Regarding the fifth aspect of CG codes, which is the frequency of board meetings, this element of CG is another difference among GCC countries. Only Saudi Arabia does not have a set number of annual meetings of the board of directors whereas ttBahrain and Oman recommend that the board should meet at least four times per year. Qatar and UAE suggest that the board of listed

companies should meet at least six times per year. Regarding training, Qatar, Saudi Arabia, and Oman require a development program to engage the enhancement of ongoing board professionals (Abdallah & Ismail, 2017).

The last aspect of CG codes is the establishment of board committees. This committee must support the work of the board and contribute to the efficiency of the board of directors (Dalton et al., 1998). All GCC countries require the establishment of audit committees besides other committees such as remuneration and nomination committees, except Oman. Bahrain recommends the creation of four committees, namely an audit committee, remuneration committee, nomination committee and CG committee. Saudi Arabia and UAE require the establishment of two committees, namely an audit committee and remuneration and nomination committee²⁴ while Oman just requires the formation of the audit committee. This indicates that while Saudi Arabia and UAE have the closest codes in terms of the establishment of board committees, Bahrain has emphasized board committees and recommend the highest number of members on a board's committee. On the other hand, Oman has placed less emphasis on the importance of other board committees.

The requirements of the audit committee are quite similar in terms of composition, independence, committee chair, financial expertise and frequency of meeting. However, just Bahrain recommends that the majority of audit committee members should be financial experts while the rest of the GCC -countries require at least one member with financial expertise. Only Bahrain and UAE require that a non-board member who is a financial expert could be appointed. With the exception of Saudi Arabia, all GCC countries suggest that an audit committee should meet at least four times per year. Interestingly, only Qatar meets international best practice by requiring audit committee members to publicly disclose an audit committee's terms of reference (Al Jaaidi, 2013).

The remuneration of directors and executives encourage members to be more diligent and concentrate on enhancing the firm's performance and shareholders' value. Remuneration committee in Bahrain, Qatar, Saudi Arabia and UAE requires establishing a policy for executive and director remuneration. Since Oman does not require the establishment of a remuneration committee, the policy of the company determines the remuneration of an executive and directors. Another difference among GCC countries is whether the compensation of directors should be fixed or varied (partially) based on the firm's performance. Only UAE requires a fixed amount of compensation to go to directors. The CG

²⁴ The remuneration committee and nomination committee are combined in SA and UAE.

code of Saudi Arabia recommends that the compensation of directors determines the company's policy whereas the Qatar CG code varies between fixed and partial based on the firm's performance. However, the codes of CG in Bahrain and Oman recommend that the remuneration of directors vary and are based on the firm's performance. The requirement of the disclosure of directors' remuneration varies among GCC countries. Oman, Saudi Arabia, and UAE CG code require the disclosure of paid remuneration to only the top five executives whereas Qatar requires that the disclosure of the remuneration is based on company policy. Unlike other GCC countries, Bahrain requires detailed disclosure of all directors' remunerations. This indicates that regarding disclosure of directors' remuneration, Bahrain is more transparent compared to other GCC countries (Al Jaaidi, 2013). It is also worth mentioning that only Bahrain requires the approval of shareholders with regard to remuneration-related matters and this is consistent with international best practice. In short, carrying out this detailed analysis and comparison of CG codes of GCC countries show that these codes are mostly very similar which helps to recognise appropriate generalisation among these countries. This is not surprising since they share a common culture, regulation and CG system (Al Jaaidi, 2013). Table 2.5 below shows the summary of similarities and differences among CG codes in GCC countries.

A.2.4.6 Literature of Corporate Governance Research in GCC Countries

There are some published papers on CG in GCC countries intended for a whole population as well as for individual countries. However, few of these articles are published documents but instead are research conducted by private companies and not peer reviewed papers. Also, none of these provide exhaustive, quantitative or recent pictures of the CG structure of these companies. Specifically, none of these studies account for the uniqueness of an institutional setting such as the involvement of the royal family and government officials on the board.

AL-Malkawi et al. (2014) highlight CG practices using the constructed CGI (corporate governance index) for listed non-financial companies in GCC stock markets. CGI has three categories: disclosures (eleven items), board effectiveness (eleven items) and shareholders rights (eight items). The sample used in the study only covers one year (2012), and the work provides a limited insight into CG practices in the regions. Furthermore, the study ignores other essential CG factors suggested in the literature such as board composition and the frequency of meetings.

Ramadhan (2014) examines the association between board compositions, the existence of audit committees, ownership structure and the level of voluntary disclosure in Bahrain. By carrying this out, all of the listed companies in the Bahrain stock market were referred to, totaling 48 for the year 2013. He does not differentiate between different types of ownership such as managerial ownership, government ownership, and family ownership. He also fails to include the accounting and financial expertise of independent directors of the audit committee (Abdallah & Ismail, 2017). Although the sample size included all listed companies; totaling 48 as previously mentioned; Ramadhan did not create a picture reflecting voluntary disclosure and independent variables.

Baydoun et al., (2013) examine and compare CG practices regarding efficiency and government regulation in five Gulf countries namely Kuwait, Bahrain, UAE, Qatar, and Oman. They avail of the OECD's 2005 survey data, but the attributes of the board of directors, the CEO duality and the number of board meetings attended were not included in these categories. Therefore, this may not give a complete picture regarding the provision of CG in these five countries.

Hassan (2011) attempts to examine the effect of CG mechanisms: disclosure, the CEO duality, the board size, the board committees and audit types on the financial performance of listed companies in UAE. The study utilises financial and non-financial companies in the year 2008 and employs cross-sectional analysis to test its hypotheses. The study experiences some limitations focusing on only one year. The investigation does not include some variables such as board and committee meetings, the independent directors on the board and the committees, the expertise of audit committee members and ownership structure. Due to a lack of disclosure of these variables, the study may not give a full account of the CG practices in the UAE.

The focus of the study conducted by Ramadhan (2012) is to examine the CG provisions, practices and reforms in Bahrain. In this study, he refers to all 53 listed companies in the years 2010 and 2011. Although he collects his data through surveys, the study fails to include questions such as board diversity and whether or not firms disclosed CG information in their annual report. This study uses a small sample size. Thus, it may not give much insight into the current status of CG in Bahrain.

The theme of the study conducted by Mousa, & Desokey (2012) is to examine the effect of internal CG mechanism (board characteristics and ownership structure) on the overall corporate value in Bahrain. The total sample used all listed companies in the Bahrain market,

which totaled 43 companies during the period 2008 to 2010. However, this study fails to distinguish between different forms of ownership and has not included the essential variables of board composition and board meetings.

A study conducted by Pearl Intuitive and Price Waterhouse Coopers (PWC,2012) examines the CG practices in family firms in GCC countries based on interviews with over a hundred such firms. The limitation of this study, however, is that it fails to distinguish whether the family firms are listed or not. This potentially makes a vast difference to the study, and so questions the accuracy of the information.

Alghamdi (2012) attempts to examine in his thesis the motivation and techniques of earnings management (EM) and also the role of CG and external audits on EM practices in Saudi Arabia between 2006 and 2009. Besides secondary data, Alghamdi used surveys, and semi-structured interviews, together with governance information on a small number of participants and such may not give an accurate reflection of the entire population of Saudi Arabia. Also, he introduces the variable of the royal family on the board but not purely as he considered both the representation of royal family and rich families on the board.

Adawi & Rwegasira (2011) investigate the effect of internal CG variables such as board size, composition competency, and meetings on voluntary disclosure in listed companies in UAE for the year 2000. As they attributed this to only one year and old data of internal CG, it may not provide an authentic and definite picture.

Habbash (2011) investigates the effect of CG regulation and the constraints in EM practices in Saudi Arabia. This study was undertaken using a sample of all listed companies in Saudi Arabia for four financial years (2006-09). Despite displaying descriptive statistics and some other statistic analysis, the study does not include CEO duality, the meetings of the audit committee, and the financial and accounting expertise of audit committee members. These are essential variables of internal CG mechanisms, which are required to provide accurate portrayal.

Hassan et al., (2013) investigate the adoption of CG mechanisms by listed companies in the UAE using a checklist of 42 CG indicators. These indicators include ownership structure (eleven attributes), board and management structure (ten characteristics), audit service (three attributes) and transparency (seventeen attributes). However, in the study, it is not clear as to which year the data was collected, and he has also not distinguished between financial and non-financial firms.

AL Janadi (2010) investigates the effect of internal and external CG mechanisms on the voluntary disclosure of Saudi Arabia and UAE companies. The sample included 150 listed companies in Saudi Arabia, Abu Dhabi, and Dubai and collected data from the annual report for the years 2006 and 2007. The study shows some limitations because it includes not only just two years of CG information but also the sample size is considered to be limited.

ALRashed (2010) investigates the relationship between CG enforcement in the GCC countries and management performance. Variables of CG include general assembly, the board of directors, audit committee, external auditors, government representatives, debtors and public shareholders. The sample contains at least five random corporations from each of the GCC countries in various sectors from 2007-09. However, the crucial variables of CG are not included in the study. Such variables include independent directors, CEO duality, board meetings and other variables of the audit committee.

Halawi & Davidson (2008) investigate board size, the gender of the directors and the CEO duality as well as the power of families based on 584 firms in GCC companies. The sample used all listed companies in GCC stock markets in the year 2007. Even though the study highlights some important aspects of CG attributes it only used one year of data which does not give a clear view or substantial explanation as to the gender or power of the families.

Although all of these studies provide some obvious evidence to describe their sample characteristics, nevertheless limitations and inconsistencies have been identified. These include firstly that the sample data is not sufficient regarding using one year and the number of firms investigated. Secondly, these studies do not distinguish between financial and nonfinancial firms. Finally, some of the more critical aspects of the CG attributes are excluded; therefore, indicating the need for rigorous research of CG in the GCC countries and its influence on EQ and firm performance and firm value. Dalwai et al., (2015) call for more research on CG in GCC countries and it is essential to understand the effect of these practices within the environment of business, and the structure of the organisation. Also, Raghu (2016) claims that in the GCC region, stock markets in GCC countries have no depth in research.

The thesis intends to address the gap in the literature, cover such limitations and to provide substantial insight into policymakers and investors, specifically minority and foreign investors, as well as obtaining a better understanding of CG status in GCC countries. Therefore, the thesis intends to discover the impact of the CG practice on EQ, firm performance and firm value in GCC countries as a single population and individual country.

One may argue that eliminating Kuwait from the group analysis may not reflect the CG practice in the region and assuming homogeneity among the group is not sensible. In the extant literature, most studies of Asian countries focus solely on one country and a smaller number of studies pool data from a number of group of countries such as Asian Countries to generate a model of “Asian corporate governance” (Lemmon & Lins, 2003), which assume substantial homogeneity among these countries. This thesis follows Jiang and Peng (2011) who examine the effect of family ownership and control in the large firm on firm performance using 744 publicly listed family firm in eight Asian countries. They investigate both one country by country basis and on an aggregate basis or pooled sample basis to overcome the limitation of a significant difference across these countries in Asia. There are more than eight countries in Asia. However, they assume that the eight countries represent Asia and reflect the practice of Asian corporate governance (Peng et al., 2010).

In the case of the thesis, GCC countries share common characteristics. Their similarities outweigh their differences. Also, some empirical studies have investigated GCC as a single population; for instance, AL- Muharrami et al., (2006), Al- Muharrami & Matthews (2009), and AL- Musalli & Ismail (2012). Nevertheless, assuming a total homogeneity among these countries is not true as they are differences across these countries. Thus, to overcome this limitation, two models of analysis have been used which is pooled sample basis (aggregate basis) and country-by-country basis to evaluate CG practice in GCC countries.

Table 2.6. Overview of Corporate Governance Code in GCC Countries					
Items	Bahrain	Oman	Qatar	SA	UAE
Non- executive	50%	Majority	Majority	Majority	Majority
Board independence	One third or minimum 3	One third	One third	One third or minimum 2	One third
CEO duality	Must be separate	Must be separate	Must be separate	Must be separate	Must be separate
Board meeting	4 times	4 times	6 times	Not stipulated	6 times
Board size	No more than 15 members	Not stipulated	Not stipulated	Between 3 to 11 members	Not stipulated
Board committees	4 committees- audit committee, remuneration committee, nomination committee and CG committee	Only audit committee	3 committees- audit committee, remuneration committee and, nomination committee	2 committees, audit committee, remuneration and nomination committee	2 committees, audit committee, remuneration and nomination committee
Audit committee characteristics					
Composition	At least 3 members	At least 3 members	At least 3 members	At least 3 members	At least 3 members
Independence	Majority	Majority	Majority	Not stipulated	Majority
Committee chair	Independent	Independent	Independent	Not stipulated	Independent
Financial expertise	The majority should have financial expertise	At least one member has financial expertise	At least one member has financial expertise	At least one member has financial expertise	At least one member has financial expertise
Meeting	4	4	4	Not stipulated	4
Independence of board members					
Items	Bahrain	Oman	Qatar	SA	UAE
Being former employees or senior executives	Within the preceding 12 months	Within the preceding two years	Within the preceding three years	Within the preceding two years	Within the preceding two years
Material business relationship	Financial relationship amounting to 31,000BD within the preceding one year	Any relations with the company which could result in financial transaction	If the member or any one of the member's relatives has currently or within the last three years direct or indirect substantial commercial or financial transactions with the company. An	Employee or holder of controlling interests in the preceding two years at an affiliated (auditor or supplier)	Financial relationship amounting to 5% of paid up capital or 5 million AED with the company, parent company within the preceding two years. Direct relationship

			employee, board member owner, partner or large shareholder of a consultant to the company		with a company that provides consultation services to the company. A relationship with a non profit or organisation that receives considerable financing from the company
Has received or receives additional remuneration	Financial relationship amounting to 31,000 BD (not counting director's remuneration) within the preceding one year	Not stipulated	Currently receiving or has received during the last three years substantial compensation from the company other than board fees	Not stipulated	Has personal service contract with the company or with any party related to the company
Has close family ties with any of the company's advisers, directors or senior employees	Family connected with 5% ownership within the preceding one year	First degree relatives of any senior executives within the preceding three years	A relative of any senior executives substantial transaction by any relative up to the fourth degree	First degree relative of a senior executive of the company or in group company related to the company within the preceding two years	First degree relative of any senior executive within the preceding two years
Represent a significant shareholder	Connected to a shareholder holding more than 10% of voting shares within the preceding one year	Not stipulated	Connected to any senior executives. Substantial financial transactions by any relative up to the fourth degree	Controlling interest in the company or in a group company	Directors' children have shared ownership of more than 10 %
Holds cross directorship	Not stipulated	Not stipulated	Employee of a legal entity where a senior executive is manager of the company	Board membership in any group company	Not stipulated
Board tenure	6 years	Not stipulated	9 years	Not stipulated	Not stipulated

B. Theoretical framework

"Theories help to explain the phenomena under study, develop hypotheses, expect and link the finding with research questions (Eisenhardt, 1989)".

B.2.1. Theoretical Framework

Scholars from different disciplines engaged to establish the theory of governance. Within the literature of CG, many theories have been developed to explain CG and its effects like agency theory, stewardship theory, institutional theory, resource dependency theory, stakeholder theory and others. However, there is no general agreement on the best theoretical basis for CG studies. Nevertheless, based on a review of the literature, the leading theory used in the prior studies are agency theory to explain and analyse various factors of social phenomena such as CG, EQ, firm performance and firm value, which lead to enriching the understanding (Deegan & Unerman, 2011). Thus, in this section, the perspective of agency theory is discussed which helped to answer and explain the results of the effect of CG on EQ, firm performance and firm value.

B.2.1.1. Agency Theory

"Firms are a legal function, which serves as a focus for a complex process in which the conflicting objectives of individuals are brought into equilibrium within from work of contractual relation" (Jensen & Meckling, 1976).

Agency theory is considered to be the base to explore the aspect of CG. The recognition of governance issues started in (1779) when Adam Smith mentioned the conflicts between management and ownership in its simplest form in his publication *'Inquiry into the Nature and Causes of the Wealth of Nations'* (Jiménez, 2006). Adam Smith (1779) explained this conflict as following *"the directors of such companies, however, is the manager rather of other people's money than of their own, it cannot well be expected that they should watch over it with same anxious vigilance with which the partners in a private co-partners frequently watch over their own.... Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company"*. Following that, Berle & Mean in (1932) explained this situation further about relation to publicly listed companies. Not until (1976) did Jensen and Meckling finally define the conflict of interest between

owners (the principles) and managers (the agents) and label it as "Agency Theory." Jensen & Meckling defines agency theory as "*one in which one or more persons (the principles) engage another person (the agent) to perform some service on their behalf which involves delegating some decision –making authority to the agent.*" In short, agency theory concentrates on the perspective of shareholders.

Considering the number of shareholders increased and the stock market developed, the separation between owners and managers became more relevant, with managers becoming more powerful. Thus, managers could potentially abuse their position. This can be recognised fundamentally in the listed companies in a stock market where the ownership is widely dispersed among many individual shareholders who are not involved in running the company. Also, it is costly for large firms to allow the involvement of a large number of shareholders in the professional decision-making process. Moreover, it is likely that shareholders are not preferred or do not have expertise in running the management of the company. Therefore, the principal appoints the agents and gives authority to them to perform tasks such as managing the company and making profitable decisions (Berle & Mean, 1932). In most cases, this is on behalf of them to meet their objectives and maximize their investment positively and subsequently compensate them for their work or efforts. However, the divergence between ownership and control creates a conflict of interest between them, which results in costs to mitigate this conflict (Jensen & Meckling, 1976; Eisenhardt, 1989). The managers may have financial or a non-financial incentive to pursue, such as having the private financial benefit or the reputation, power, status, prestige whereas the shareholders focus on having a positive return on their investment or maximising their wealth. As managers are responsible for preparing financial information reports, they also have more and better information and power over decisions regarding their company than shareholders. Thus, they might manipulate financial details information seeking their interest, or they might meet analyst earnings forecasts. They might avoid breaching debt covenants or even avert political scrutiny also if this means reducing the wealth of shareholders. Consequently, this leads to low earnings quality (EQ) and reduces the performance and value of firms in the long term (Giroux, 2004). The company usually uses financial statement reports to communicate with their shareholders or potential investors or other capital providers such as creditors who make economic-based decisions and seek to increase the value of their investment as compensation for the unavoidable risk that is involved with their companies (Khanna & Palepu, 1997). For instance, shareholders make decisions based on the financial information in the statements. If financial information is not reliable and accurate, their decisions are considered unreliable and inaccurate as well (Giroux, 2004). Furthermore, the information asymmetry is linked to moral hazards and adverse selection. Moral hazards occur when the principals (owners) are not fully

informed and can get the desired information about the real performance of the firm or outcome of running the firm, which is probably handled by managers providing less effort to maximize the principal wealth (DeMarzo & Fishman, 2007). Adverse selection occurs when principals cannot confirm that the selected managers have the right ability and skills to run a company's operation to meet the objective and increase the wealth of the principals (Pucheta-Martínez & García-Meca, 2014).

Compensation of managers is mostly linked to performance and earnings of the company. Managers may have the self-interest to use their information and control, which creates information asymmetry. This would help them to exercise their opportunistic discretion over accounting numbers, which may lead to irrelevance, inaccuracy and unreliable reported earnings (Giroux, 2004). Being discreet with accounting numbers is possible due to the inherent flexibility and nature of accrual accounting. From agency theory's perspective, the management of the company cannot be fully trusted, and mechanisms should be introduced to protect the interest of shareholders (Giroux, 2004). Thus, to eliminate the cost of agency problem effectively, a firm should have procedures and systems to control the power of management and to protect the interest of shareholders (Fama & Jensen, 1983). Fama (1980); Fama & Jensen (1983); Williamson (1988); Shleifer & Vishny (1986); McKnight & Weir (2009) assert that CG is considered as a system and procedure to reduce the cost of agency dilemma and to eliminate the opportunistic behaviour of management.

Therefore, since agency theory focuses on the relationship between principals (owners) and agents (managers), the essential basis of agency theory is to ensure that the managers not only pursue and maximise their wealth and interest but also to work for shareholders by establishing appropriate and adequate incentives to eliminate opportunistic behaviour of management (Jensen & Meckling, 1976). From agency theory's perspective, reducing agency problem leads to an increase in the value maximisation of the firm and shareholders (return of investment of shareholders). Furthermore, agency theory suggests ways of reducing agency costs namely monitoring cost, bonding cost and residual loss which stem from internal CG structure which would help to increase EQ (Eisenhardt, 1989) and firm performance and firm value (Shabbir & Padget, 2005). Monitoring cost is borne by the principals and is the set of monitoring mechanisms such as internal CG mechanisms to monitor management behaviour whereas bonding cost is taken by the agents involving financial or non-financial mechanism, ensuring that the agent makes an effort to maximise the principals' wealth. Residual loss happens despite the involvement of monitoring cost and bonding cost since these can fail or not be effective enough to align the interest of the principals (owners) and agents (management). Thus, the owner can reduce the self-interest incentive through some tools such

as monitoring managers' behaviour and by introducing a contract incentive to align their interest with management interest (Eisenhardt, 1989). An example of aligning interest, the ownership of shares and stock options are one of the long-term incentive concepts given to managers to reduce agency problems. These proposed solutions are considered as motivation to the manager to align their interest with other shareholders interest. In other words, the agency problem can be reduced through direct and indirect monitoring. An example of direct monitoring is the appointment of independent directors, and an example of indirect monitoring is offering incentives to managers (Jensen & Meckling, 1976).

Agency theory is more applicable in relation to publicly listed companies where the separation between principle (ownership) and agent (control) is very relevant or significant. Some scholars argue that many concentration forms of ownership tend to enhance the monitoring process of the management. This helps to mitigate the agency conflict between management and shareholders which is regarded as the Type I agency problem (Jensen & Meckling, 1976; Morck et al., 1989; Shleifer & Vishny, 1997); however, it can create other agency conflicts between controlling shareholders and minority shareholders which are called type II agency problems which is more recognised in emerging countries due to the concentration of ownership. (Shleifer & Vishny, 1997, Chau & Gray, 2010). By using their control rights, these large shareholders might have desired to expropriate the minority shareholders' interest in using gaining personal and private benefits (Shleifer & Vishny, 1997). Thus, diverse shareholders' ownership is common in the Western countries and creates the conflict of interest stemming from the separation between ownership and control. GCC countries suffer explicitly from conflict of interest between majority shareholders and minority shareholders such as controlling members who occupy high positions in the firm such as the chairman of the board who need to elect other family members on to the firm's board and management teams (Hawkamah, 2013, Jaggi et al., 2009). Therefore, there are agency problems.

Scholars from different disciplines, such as political science, marketing, sociology, accounting, finance, and management, among others use agency theory (Eisenhardt, 1989). The influence of CG structure can be adequately explained by using agency theory. A lot of studies examine the association between CG mechanisms, EQ, firm performance and firm value taking agency theory as a basic framework for their studies and to understand the relationship (Xie et al., 2003; Kao & Chen, 2004; Davidson et al., 2005; Benkel et al., 2006; Clark, 2004, Abdullah, 2006, among others). Thus, agency theory is the most employed

theory as a foundation to explain CG (Eisenhardt, 1989). Mallin (2007) also claims that agency theory is the most suitable theory to explain CG mechanisms²⁵.

Like any theory, agency theory has received some criticisms. Perrow (1986) criticise the theory regarding clarity, validity, generalisation, and competence. For instance, they claim that there are no principles in reality since most of the time the management of the business is also a member of the board of directors. Various, directors, can be an agent when they are present on the management team of the corporation and get compensation for their works. On the other hand, directors can be a principal when they are present on a board of directors and own some corporate shares. In today's corporate world, shareholders and managers are transient and therefore don't offer loyalty to the company as they may have done in years gone by. Another criticism of agency theory is that it just focuses on the relationship between shareholders and management and this is against the public policy (Deegan & Unerman, 2011).

However, as mentioned previously, the agency's problem cannot be ignored in any firm, primarily publicly traded firms as there is the potential of conflict of interest between management and shareholders in developed and developing countries Eisenhardt (1989) argues that agency theory is a fundamental theory and can be used to validate empirical work and develop a hypothesis. Agency theory provides an in-depth perspective on the outcome of uncertainty, incentives, and risk. Furthermore, the assumption of agency theory is relevant to practice when one examines the board structure and regulatory reaction to corporate failure (Eisenhardt, 1989).

2.7 Conclusion

This chapter was divided into two sections, A and B. First, Section A focuses on the institutional setting. The subsection A.2.1 provides general information about GCC countries and individual country. Specifically, this subsection highlights the strength and weakness of these countries as one region and at the individual level. Following that subsection A.2.2, A.2.3. And A.2.4 focuses on provides the operation definition of CG and CG in general, CG in the UK and corporate governance in GCC countries. Consequently, subsection A.2.5 outlines the comparison of CG codes in GCC countries. The last subsection A.2.6, briefly highlights the literature of CG research in GCC countries. The outcome of this section reflects

²⁵ Agency theory has been used extensively in the literature of CG and EQ and CG and firm performance.

lack of research in GCC countries, CG and the relationship between management and owners and the effect of royal family members on the board, results in a lack of clarity and understanding of the firms in the region. Hence, there is a need for further research focus on the effect of internal CG on CG, firm performance, and firm value.

Second, Section B theoretical grounds for the three research questions. B.2.1 aims to review agency theory in detail, which is used to explain and analyze the influence of CG on EQ, firm performance and firm value. The theory is “an abstract of reality,” and no one theory can adequately explain behavior (Deegan & Unerman, 2011). However, to address the three research questions and to test the hypotheses, this thesis considered agency theory as the most relevant theory. Simply, agency theory explains that there is a conflict of interest between management and ownership. Therefore, the need for a CG code comes as a response to the agency dilemma and aims to mitigate this conflict (Tricker, 2009) through the alignment of interest. Doing so can increase wealth maximisation for the shareholder as well as help to boost the credibility and transparency of financial reporting which lead to higher EQ, improved firm performance, and firm value. In other words, well-implemented CG mechanisms help to protect, generate value and increase confidence among shareholders especially minority shareholders. These goals can be reached by minimizing information asymmetry, ensuring high quality of earnings and accurate financial information disclosure at the right time (Bushman & Smith, 2003; Ramly & Rashid, 2010). In the next chapter, the theoretical and empirical literature will be reviewed using agency theory to identify specific board characteristics and their effect on EQ, firm performance and firm value.

Chapter 3

Literature Review

“Corporate governance is now as important in the world economy as a government of countries” (Gregory & Simms, 1999)

3.1 Introduction

The previous chapter provides the foundation of this thesis by describing the institutional setting and a theoretical framework, which is based on agency theory. Understanding the relevant theory to the research questions as a base helps to explain the results and prove or reject the hypotheses. Thus, this chapter offers a comprehensive literature review of corporate governance (CG), earnings quality (EQ), firm performance, and firm value. The structure of this chapter is as follows: section 3.2 provides a general discussion of CG and section 3.3 highlights the literature review of CG mechanisms. Section 3.4 considers the empirical literature review of CG and EQ while section 3.5 explores the empirical literature review of CG, firm performance, and firm value. Section 3.6 provides hypotheses development of three research questions and section 3.6 concludes the chapter with a brief summary.

3.2 Corporate Governance:

Nowadays, CG is one of the factors that provides stability and growth of the economy as it contributes positively to the development and performance of the firm. It, therefore, ensures accountability of the board of directors, which is fundamental to protecting the shareholders and stakeholders against inherent risk and poor management (Tricker, 2009). Proper CG decreases the risk of future financial crisis. In addition, high-quality CG implementation and practice translate into high firm performance and EQ. However, it is still debatable whether mechanisms positively influence EQ, firm performance and firm value (Dian, 2014). Additionally, shareholders of listed companies put more value on a firm with a good CG structure.

The scope of this thesis is to focus on the shareholders' perspective and internal problems as they relate to internal CG with a focus on the uniqueness of institutional setting (royal family

members on the board). The rationale of selecting the board of directors and ownership structure is that the board of directors exercise legitimacy and authority through accountability given by shareholders to monitoring managers, producing high EQ, firm performance, maximising long-term return and making sure they are working in the best interest of shareholders (Fama & Jensen, 1983; Monks & Minow, 1995). Ownership structure shapes the strength and weakness of the CG structure, the quality of information and protects shareholders. Therefore, the ownership structure affects EQ, firm performance, and firm value (Fan & Wang, 2002).

3.3 Corporate Governance Mechanisms

This section discusses the general literature review of CG that related to three research questions.

3.3.A. Board of Directors

CG is a complex system and the board of directors is a cornerstone of governance mechanisms (Cullen & Brennan, 2016). Shareholders appoint a board of directors and give power and authority to them over the internal control of the firm. Thus, the board of directors has a fiduciary obligation to shareholders (Monks & Minow, 1995). The board of directors should discharge their responsibilities and perform their duties to ensure that management act in the best interest of shareholders by monitoring the management. The board of directors also plays an important role in enhancing firm performance, firm value and minimising the agency cost by monitoring the quality or earnings reported and ensuring compliance with the law. Additionally, a substantial number of studies have confirmed that the effectiveness of the board of directors in the performance of CG activities helps to align the managerial interest and shareholders interest and protect the interest of shareholders to reduce agency costs (Jensen & Meckling, 1976; Fama, 1980; Linck et al., 2009; Jensen, 1993; Brennan, 2006). This results in a better EQ, firm performance and firm value.

It is widely accepted in the CG literature that the board of directors exercises three accountability roles, which include control, monitoring and oversight. Other literature uses these roles interchangeably to describe the role of the board of directors. However, Cullen & Brennan (2016), investigating the case of an investment fund board, find that accountability roles – control, monitoring and oversight roles cannot be used interchangeably as they are all different. They argue that their results indicate that the board of directors might not have enough power to be able to exercise these three roles as assumed in the literature. Additionally, they claim that the fund promoter exercises control and monitoring rules instead of the board of directors. The role of the board of directors in this case is just an oversight due

to their legal responsibility, but they have limited power to exercise over other parties such as large shareholders.

Some aspects of an effective board have already been considered in existing literature such as independent directors, the size of the board, CEO duality and the frequency of meetings. In addition, the research considers the effect of the presence of royal family members on the board, which is a unique aspect in the context of the GCC countries.

3.3.A.1. Independent Directors

Appointing independent directors is considered one of the internal CG mechanisms to reduce agency cost and information asymmetry problems in the Modern Corporation (Fama, 1980; Lipton & Lorsch, 1992; Jensen, 1993). However, there are two streams of the theoretical view of independent directors on the board: those who support more independent directors and those who are in favour of more executives on the board.

The first group claims that an independent director can be more accountable than an executive (Fama, 1980; Sonnenfeld, 2002) due to their independent judgement of board decisions (Cadbury report, 1992; Chhaochharia & Grinstein, 2009). Independent directors are not supposed to be dependent on a firm financially and in accordance with best practice of CG²⁶ and CG in GCC countries, they should not have close family ties to the company. They should not receive fees, which are not related to the performance of the company, nor serve on the board for more than nine years. They should not hold cross-directorship in other companies, and they should not address specific groups of shareholders. If these characteristics are met, independent directors are thought to be in a position to monitor management more effectively and refuse any pressure to accept earnings manipulation. In addition, they can add to firm resources in terms of experience, expertise, business contacts and reputation (Haniffa & Hudaib, 2006; Baranchuk & Dybvig, 2009). Due to the fact that senior management could dominate the board of director's decision to expropriate shareholders' wealth, independent directors can offer an effective monitoring function of the board's decision –making process (Fama, 1980; Fama & Jensen, 1983). For instance, Brickley et al. (1994), Byrd & Hickman (1992) and Weisbach (1988) find that firms with more effective board monitoring have more independent directors.

²⁶ The UK corporate governance code (2012).

The opponents of more independent directors on the board argue that they have less knowledge about the company, (Weir & Laing, 2000) potentially resulting in lower quality decision-making (Haniffa & Hudaib, 2006). These are part-timers who are normally present on other companies' boards (Bozec, 2005; Jiraporn et al., 2009). Therefore, they have little time to understand the complexities of the company and offer effective monitoring which negatively influences firm performance (Baysinger & Hoskisson, 1990; Weir & Laing, 2000; Bozec, 2005). Kiel & Nicholson (2003) claim that a greater number of executives on the board could provide better decision-making leading to better financial performance due to a higher level of knowledge about the company. In addition, according to Baum, (2016) claims that empirical evidence of the effect of independent directors is still unclear as global financial crisis added doubt of their effect. Thus, a high number of independent directors on the board is not always good.

3.3. A.2. Board Size

Best practice of CG and most of CG codes in GCC countries mention the importance of board size but these codes do not stipulate specific board size. However, some codes suggest minimum and maximum board size such as Bahrain and Saudi Arabia. With regards to Bahrain, the board should not have more than 15 members whereas in Saudi Arabia, the board should comprise of between 3 to 11 members. There is no universal agreement on the optimal size of a board of directors. In addition, previous studies have documented mixed findings regarding the optimum size of the board of directors. For instance, Zahra & Pearce II (1989), Yu (2008), and Kline (2002) posit that a large board size has more capability to act in the shareholders' best interests because of the diverse expertise and skills. Nonetheless, the side effect of a large board is that the process of decision-making can be slow and may not encourage innovation (Ismail et al., 2010). Some other researchers such as Vafeas (2000), Alonso et al (2000), Eisenberg et al. (1998), and Jensen (1993) conclude that a small board size is more effective in increasing market value, monitoring the CEO, and reporting more informative earnings (Lipton & Lorsch, 1992; Karamanou & Vafeas, 2005). These findings support the view that a small board has better communication than a large board, which is good for controlling and monitoring. Certo, (2003) argues that the role of a large board size is more symbolic and that they may not have a dynamic group in terms of communication and coordination. They may be involved as an advisor rather than simply to monitor. In addition, a large board has more difficulty in co-ordination and can be more easily controlled by a dominant CEO (Jensen, 1993).

3.3. A.3 Board Meetings

It has been argued that the frequency of meetings can play an important role in monitoring and tackling issues within a firm more efficiently. The best practice of CG and CG codes in GCC countries recommend regular meetings of the board of directors to deal with their duties efficiently. With the exception of best practice and Saudi Arabian codes, all CG codes in GCC countries recommend between 4 and 6 meetings per year in Bahrain, Oman, Qatar and UAE respectively. Some prior studies support this recommendation. Therefore, others believe that board meetings are not necessarily beneficial because they constrain routine tasks, which take up most of the time.

Literature also documents the importance of board meeting frequency in measuring board operations or activeness (Vafeas, 1999). Therefore, a higher number of board meetings reflect that the board is active and able to solve a problem and monitoring management (Managena & Taurigana, 2008; Vafeas, 1999; Conger et al., 1998; Adams & Ferrira, 2009).

However, other studies argue that most of the problems in publicly traded shares are that the board does not have enough time to discharge their duties and attend regular meeting to monitor management effectively (Lipton & Lorsch, 1992; Conger et al., 1998). Therefore, the board meetings may not truly reflect the exchange of information and ideas between management and board members due to time constraints. This is particularly true for outside directors. In addition, Jensen (1993) argues that the board of directors is not active unless there is a problem present.

Vafeas (1999) argues the possible pros and cons of increasing the number of board meetings. On the one hand, board meetings may add some cost to the firm through time, travel expenses and directors' fees. In addition, board activity might be constrained by routine tasks and may not use the time effectively to tackle problems, which reduces the productivity of board meetings. On the other hand, increasing the number of board meetings might be beneficial for the firm to increase board consultation, put strategies through and monitor management further. He also claims that for the firm to achieve better governance with less cost, the firm can increase the number of board meetings instead of changing board composition or ownership.

3.3.A.4 CEO DUALITY

CEO duality is when the CEO is also the chairman of the board. It is another feature of the board of directors that has been investigated. The role of chairman of the board and the CEO

are supposed to be different. On one hand, the responsibility of the chairman of the board is to nominate new board members, review the performance of senior management and setting the agenda for board meetings. They are also responsible for settling conflicts that may arise on the board (Weir & Laing, 1999). On the other hand, the role of the CEO is to run and manage the day-to-day operations. CEO duality could be considered to be a “double- edged sword” (Finkelstein & D’Aveni, 1994) as there are two streams of literature: opponent and proponent of CEO duality. The proponents of dual structure CEO/chairman²⁷ claim that it can help improve decision processing and efficient strategy due to the CEO’s knowledge, understanding and experience of the company which is often superior to that of the chairman (Weir et al., 2002; Stoeberl & Sherony, 1985; Anderson et al., 1997) and has greater focus on firm objectives leading to better firm performance (Haniffa & Cooke, 2002). In other words, CEO duality can be beneficial to the company’s operation as they are more knowledgeable and experienced which reduces the confusion and conflict between CEO and chairman (Alexander et al., 1993; Pfeiffer & Sanlancik, 1978; Davis, 1991).

The opponents of CEO duality argue that the role of CEO duality has a negative influence on the firm’s performance (Lipton & Lorsch, 1992; Jensen, 1993). The power would be concentrated in the hands of CEOs when they hold a position as chairman. Therefore, CEOs also can control the availability of information provided to the board of directors and shareholders which reduces the effectiveness of monitoring (Jensen, 1993). The best practice of CG and CG in GCC countries recommends the split between the role of the chairman and the CEO. The role of chairman is to evaluate and monitor the CEO. Hence, if CEO duality exists, it may compromise the effectiveness of the board in terms of monitoring CEO performance, which in turn increases the agency problem (Jensen, 1993).

3.3.A.5. FEMALES ON THE BOARD

The development of CG around the world encourages diversity on the board of directors (Terjesen et al., 2009). Firms face more pressure to engage and point out females on the board of directors to minimise the gender gap and diversify the boards (Smith et al., 2006). However, the presentation of females on the board differs between developed and developing countries. Additionally, scholars have highlighted the effectiveness of female directors as a device since they have different backgrounds, views and problem-solving abilities (Anderson et al., 2011). All of these would lead to better financial performance (Anderson et al., 2011; Ferreira, 2010; Pfeffer & Salancik, 1978; Terjesen et al., 2009; Adams & Ferrira, 2009;

²⁷ Some literature refers to CEOD as dual or combined leadership.

Anderson et al., 2011). Abdullah et al., (2013) claim that female directors have the ability to influence the environment of CG, the function of board and a firm's performance. The presence of female board members is especially important in environments where the protection of shareholders is poor (Bianco et al., 2015). However, A number of studies claim that the involvement of female directors has a negative effect on firm performance (Adams and Ferreira, 2009; Smith et al., 2006) due to a lack of qualifications and skills needed for directorship. Thus, few women sit on boards and those that do are monitored closely. This leads to an increase in costs for the agency and a reduction in firm performance and value (Cashman et al., 2012; Falato et al., 2014; Field et al., 2014).

3.3.A. 6. RELATIVES

Prior studies are also interested in family members or relatives on the board and their influence on the firm's performance. There are two trends in literature. First, a group of studies claims that family members feel a mutual obligation toward each other which may result in other shareholders being disregarded in favour of family members (Barontini & Caprio, 2006; Jara-Bertín et al., 2008; Gomez-Mejia et al., 2001; Morck & Yeung, 2004; Shleifer & Summers, 1989). This would lead to lower firm financial performance. Based on the sample of Taiwanese sample firms, Yeh & Woidtke (2005), Chrisman et al., (2005), Sharma et al. (2007), Schulze et al. (2003), and Voordeckers et al. (2007) find that the higher the percentage of relatives or family members on the board in the controlled family firm, the lower the firm's value.

Nevertheless, the second group of studies supports the theory that the involvement of family members in a business reduces the agency problems compared to other businesses (Anderson & Reeb, 2003; Demsetz & Lehn, 1985; Fama & Jensen, 1983) as there is less need to monitor. Also, their incentive is to maximise their wealth (Cruz et al., 2010; Fama & Jensen, 1983). Family members or relatives focus on their reputation, wealth and expanding their business to enhance their firm's performance. Claver et al., (2009) argue that family-run businesses tend to have long-term vision and this would help family members to commit to protecting their firm's credibility. They also give a positive impression of the success of the firm in order to retain and attract more investors and they attempt to merge family values to the corporate culture.

3.3.A.7. Royal Family Members and Government Officials Politically Connected Board Member

Political connection has great influence on the whole economy of the country and the economic life of individual firms (e.g. Claessens et al., 2008; Bunkanwanicha and Wiwattanakantang, 2008; Ferguson and Voth, 2008; Khwaja & Mian, 2005; Sun & Tong, 2003; Cheung et al., 2005; Fisman, 2001; Sapienza, 2004; Fan et al., 2007; Faccio et al., 2006; Charumilind et al., 2006). A set group of studies examines politically connected firms in an international context (Faccio, 2004 & 2006; Boubakri et al., 2008) while others investigate this variable in the US market (Kang & Zhang, 2012; Cooper et al., 2010) and Canada (Morck et al., 2000). In addition, a number of other studies use this variable as part of their studies (Goldman et al., 2009). The effect of politically connected firms is more significant and pronounced in the emerging markets where the legal system is weak and the protection of shareholders' rights is poor. Therefore, most of the studies on connected firms are based in China, other Asian countries and Latin American economies (Fisman, 2001, Faccio, 2002; Wiwattanakantang et al., 2006).

Scholars also argue that political connection has a double-edged sword as it can enhance or jeopardize the firm EQ, firm performance and firm value. In other words, Faccio (2006 & 2010), and Chen et al., (2011) argue that the cost and benefit of a political connection to firms are different across countries and depend on the institutional environments. They note that politically connected firms are common in countries with high corruption and where the legal system is poor and lacks independence (Boubakri et al., 2008) compared to the countries with a strict legal system and strong protection of investor's rights. Added to that, there is evidence that shareholders are less likely to react negatively or to sue politically connected firms compared to their counterparts. The politician might help the company to get much-needed resources but they want pay back through "social policy goals."

The firms tend to appoint political members to access more benefits such as their knowledge, and expertise in government procedures and connections with government to get advantage over their competitors (Agrawal & Knoeber, 2001) or to signal strong CG (Ang et al., 2016). Political connected firms may not be corrupted; thus they can influence positively the governance structure of the firm by aligning the interest of shareholders (controlling and minority) with government policies, which in turn, increase the investor's confidence and enhances firm value. All of this can be related to the political environment and culture of the country and willingness of political people to abuse their powers or to not engage the management with political rent extraction (Ang et al., 2016). Ang & Ding (2006) find that political connected firms in Singapore have strong CG and higher firm valuation. Politically connected firms are provided with valuable resources such as obtaining cheap loans and other economic advantages, such as new and attractive business opportunities and links with

rapidly-growing firms (Fisman, 2001, Faccio, 2002; Wiwattanakantang et al., 2006). Rajan & Zingales (1998) claim that in China, personal connections are important and beneficial for quick transactions compared to the usual long process of negotiation in the market. Prior studies document that politically connected firms can have protection from some regulations such as preferential access to financing, reduced licensing fees, new state contracts and market entry barriers (Faccio, 2006). Johnson & Mitton (2003) and Khwaja & Mian (2005) examine politically connected firms in Malaysia and Pakistan, respectively and find that these firms are more likely to have easier access to debt financing than non-politically connected firms.

Faccio et al., (2006) provide evidence that it is easier for politically connected firms to receive government bailouts even if, before and after the bailout, the firms are underperforming. Goldman et al., (2008) find that government officials can impact the direction (allocation) of profitable contracts with the government to their connected firms which may then open up more opportunities to go abroad if the government officials have outside connections. Goldman et al., (2009) also document that the large impact of politically connected firms on value comes from the belief of the market that political connections do provide benefit to the firms.

3.3.A.8 Independent Politically Connected Directors

It is also interesting to investigate whether the effect of independent politically connected directors is creating or distorting firm EQ, firm performance and firm value. According to the extant literature, an independently-connected board member can mitigate the agency conflict and provide resources to the company (Zona, Gomez-Mejia, & Withers, 2015; Fama & Jensen, 1983; Ye, 2014; Pfeffer & Salancik, 2003; Wang, 2015). In addition, an independent director contributes to the company strategy and offers a proper oversight function to monitor company performance and operation. The responsibilities of independent directors are to supervise and oversee the managing directors. The quality of oversight function of independent directors is based on their experience and capabilities to perform their oversight responsibilities, which in turn, influences firm EQ, firm performance and firm value (Yermack, 2004). In addition, independent directors with different backgrounds (independent politically connected director) behave differently in monitoring and providing the resources. Thus, through their knowledge and skills, they may have effective oversight within the firm (Sonnenfeld, 2004). The vast majority of politically connected board members serve as independent directors while only in a few cases politically connected board members have an

internal appointment, mainly as CEO (Goldman et al., 2009). These directors are a particular type of independent director expected to monitor the manager and controlling shareholders to protect the interest of minority shareholders. These directors may play a significant role in monitoring due to the fact that they care more about their reputation than other independent directors. Regardless of the type of independent directors, they should all bear the same responsibilities and duties. Based on empirical literature, Du et al., (2014) find a positive effect of independent politically connected directors on the performance of a private firm. Due to government intervention, frequent political changes, and political disturbances, an independent political connected director can smooth the communication between the firm and politicians to avoid the risk of policy and gain regulatory rent. Thus, an independent politically connected director has a political role in the firm and creates more value to the firm (Ye & Li, 2017). Wang (2015) finds that an independent will help to increase firm value, the overall firm debt and over investment. A politically connected director and political connections can potentially bring in different types of resources that include financial, non-financial, and policy-related resources. They measure the resources through the firm's capital structure, Leverage (Wang, 2015).

However, some scholars argue that the independent politically connected directors tend to have a lack of financial expertise and experience in the industry. Ye & Li (2017) argue that an these directors can be considered as a rent seeking tool rather than consulting and monitoring. Importantly, they also argue that a regulator should restrict the independent qualification and requirement to ensure that independent directors are more effective in monitoring and consulting, which in turn, helps to increase the effectiveness of an independent politically-connected board and CG. They also call for investigation of an independent director in emerging markets with close attention to specific institutional features, which differs to developed countries (Ye & Li, 2017).

3.3.A.9 Royal Family Member

The monarchy of GCC has a direct impact on the economy and the royal members can have access to governmental recourses. Al-Hadi et al., (2016) argue that royal family members have a power over the economic and political regimes in the GCC region. Thus, royal board members are important individuals to determine the businesses. They also argue that the royal family members on the board play an important role in achieving the outcomes of the businesses. In addition, royal families, as well as rich families, owned profitable companies and have a connection across lines of the state (Henry & Springborg, 2010). They can

influence monitoring and decision-making. The influence of politically connected firms on financial information and performance is based on the degree of political power in the firm. Royal family members play a central role in the governmental institution which enables them to control the top positions and decision making in these institutions (Hertog, 2012). According to Hertog (2012), the board members of some GCC firms are selected according to their position among the top ruling families or their connections. It is not necessarily that the royal family member on the board behaves opportunistically to achieve personal benefit at the expense of other shareholders, especially minority ones (Al-Hadi et al., 2016). The study argues that the royal family may look for reputational norms thus they attempt to generate the right of investors (Al-Hadi et al., 2016, Mazaheri, 2013). Therefore, royal family members on the board are more likely to be more independent and provide the firm and shareholders with more protection, even in difficult times. Furthermore, royal family members may prefer not to attract negative attention to the market. Other scholars also confirm the benefit of the royal family members on the board as they can stop the intervention of government that hinders the expansion of the firm domestically and internationally (Hertog, 2012). Entrepreneurs can capitalize their benefits with the royal family elite via a relationship, business partnership and marriages (Mazaheri, 2013). Mazaheri (2013) highlights that non-ruling entrepreneurs tend to have an advantage if they are able to get a royal patron involved with a project. They can also progress by having access to business relationships and branding. Thus, royal family members on the board can enhance a firm's performance, add value to shareholders and reduce the intervention and risk. They can also help the firm to access the loan from government banks at low interest (Claessens et al., 2008). In addition, politically connected firms tend to have lower market risk compared to non-connected firms due to the protection by royal patronage. ALi et al., (2007) observes evidence that the royal family members on the board are better able to gain information, such as CG information.

However, the monarchical regimes in GCC countries control the region and they tend to favor specific classes (Amenta, 2000) or favor specific family connections (Atiyyah, 1992). There can be an overlap among government members, trading families and royal families in GCC countries (Kshetri & Ajami, 2008). Thus, the mutual interests among these groups can be strengthened through this relationship (Al-Rumaihi, 1986). In general, wealth is controlled between ruling family members and trading families in the GCC region (Crystal, 1995). Some describe a royal family members as having low accountability with total obedience. There is also the sentiment that they do not accept being questioned even though they control many government companies (Sidani & Al Ariss, 2013). Thus, they may impair the efforts of a regulator trying to enforce and improve CG and transparency of financial reporting. The power of a royal family member may trigger the agency conflict between the board and

management (type I) or between the controlling shareholders and minority shareholders (type II). They also argue that to some extent, the board membership of royal family members serves to protect these members' personal interests and the interests of related companies. In addition, the business interests of politically connected companies are protected by the monarchy as management will not interfere with decisions made by powerful ruling family directors. In some cases, such rulers transfer finances to themselves at the expense of others. In GCC countries, minority shareholders are not protected against controlling shareholders and royal family members who may then benefit at the expense of minority shareholders (Crystal, 1995; Hertog, 2012). Through their major shares and political connections, royal family directors can have a significant influence on the board; thus they are more likely to gain private benefits over others such as minority shareholders through dividing minority shareholders, engaging in related-party transactions, practicing managerial entrenchment, or promoting government risk-seeking (Xu, Xu et al., 2013; Gilson & Gordon, 2003; Anderson & Reeb, 2003; Shleifer & Vishny, 1997).

The research is interested in answering the following questions: Does the presence of royal family members really matter for the effective CG mechanism to increase EQ, firm performance and firm value? Do firms with royal family members have an advantage over their counterpart firms, which protect the interest of shareholders and enhance EQ, firm performance and firm value? The study argues that this group do not just affect CG mechanisms but also the effectiveness of CG to enhance EQ, firm performance and firm value. In prior literature, the effect of royal family members and government officials on EQ, firm performance and firm value has not been explored. The lack of study of political connections in the region is mainly due to the lack of appropriate data. Also, like the case of India, this topic is a somewhat unfavourable topic of discussion as mentioned by Fisman (2001). Given the uniqueness of the institutional setting, there is no study related to the presence of royal family members on the boards of directors. However, there is a range of existent literature on politically connected firms. Due to the difference in legal systems, culture and institutional structures specific to other countries, the findings even if they are relevant, cannot be generalised.

In this research question, the presence of royal family members on a board is unique because of the operating environment of firms in the GCC countries. As stated by Hofstede's cultural dimensions matrix, Middle Eastern culture has a high power distance score, which means people respect authority, accept hierarchy, inequality and centralisation. In this culture, people accept being told what to do without a need for justification. Because of the social structure of the society and cultural values in the GCC countries, royal family members have a vested

legitimate power in the organisation. In addition, they have social status and wealth, which gives them the power and authority to influence others, such as management and boards of directors more directly and easily. Undoubtedly, there are different levels of royalty; for instance, the first generation of royal family is more powerful than the second or third generation. Thus, this variation in influencing the decision-making must be considered. Therefore, power is important in many aspects of an organisation but may be problematic when individuals or groups misuse it or abuse it (Luthans, 1995). Analogously, the study utilises the literature of politically connected board members as a background and built from it. Therefore, this literature is useful for both government officials and royal family members on boards.

3.3.B Board Committees

The previous literature claims the importance of board committees for efficient and effective monitoring (Jiraporn et al., 2009). Board committees are not just for supporting management by giving advice about a major business decision, but also for monitoring and overseeing management to protect shareholders' interests and to provide an independent view of corporate executive affairs (Harrison, 1987). Therefore, establishing committees has increased as part of monitoring tools (Harrison, 1987). Almost all CG codes around the world suggest the establishment of the audit committee (UK code, 2012, OECD, and GCC codes amongst others). The function of an audit committee is to meet regularly with internal and external auditors to review a financial statement of the company and release timely unbiased accounting information, audit processes and internal accounting controls which reduce the agency problem and information asymmetry (Klein, 1998). As a result, an audit committee reduces the probability of financial fraud and increases the firm's value. Some characteristics of audit committee are highlighted in the literature (independence, size, meetings, expertise).

3.3. B.1 Independence of Audit Committee

The independence of an audit committee is an important feature of the audit committee to enhance the effectiveness of monitoring management besides the board of directors. The best practice of CG and the codes of CG in GCC countries highlight the importance of an independent audit committee. Harrison (1987), Wild (1994), and Sun & Cahan (2009) find independent directors in audit committee are important to protect the interest of shareholders (Vefas, 1999).

3.3. B.2 Audit Committee Size

It has been argued that a large audit committee is more beneficial due to the skills and resources, which in turn affect their ability to enhance EQ and deter EM (Ismail et al., 2007), which also boost a firm's performance (Coleman et al., 2007). Managena & Taurigana (2008) note that the size of audit committees is a matter of reviewing financial reporting processes. Anderson et al., (2004) states that large audit committees are more effective in solving potential problems, overseeing financial reporting processes and internal control systems. Mande et al., (2012) claim that the large audit size enhances the effectiveness of CG practices. Previous studies by Dalton et al. (1999), Saleh et al. (2007), Mir & Souad (2008), Karamanou & Vafeas (2005), claim that the large audit committee size is beneficial for performance as they have wider knowledge base.

3.3.B.3 Audit Committee Meeting

Prior studies support the notion that the number of meetings held by an audit committee is important (Larcker et al., 2007). When an audit committee meets regularly, the effectiveness of monitoring is increased and shows assiduousness, diligence and effort in performing their tasks. Normally committees have a small number of directors who can have regular meetings and efficient time for meaningful negotiations and to make quick decisions (Karamonou & Vefas, 2005). They also can bring their specialty knowledge and expertise for the board's decision-making process (Harrison, 1987).

3.3.B.4 Audit Committee Expertise

Previous studies state that the quality of financial reporting also depends on the financial and accounting expertise of audit committee members. It has been argued that audit committees with members who have financial expertise play a more effective role with internal and external auditors (Raghunandan et al. 2001) and enhance corporate quality (Krishnain & Visvanathan, 2008). Additionally, because of their knowledge and expertise, they can be involved in specific strategic interests and responsibilities. The role of committee is to enhance board accountability, legitimacy and credibility (Weir et al., 2002).

3.3.C. Ownership Structure

Based on the theories perspectives, ownership structure has a vital function in overseeing and boosting EQ, firm performance and firm value. In addition, large investors are in a better situation to incentivise and monitor management than any other shareholders, even the board of directors due to their large investment and influence (Shleifer & Vishny, 1986). Andres (2008) also stresses that controlling shareholders have more power and incentive to monitor management, which in turn will reduce agency costs. As argued by Fama & Jensen (1983), firms with concentrated ownership are more efficient than firms with dispersed ownership because the monitoring costs are lower. Due to information asymmetries and conflict of interest, agency problems in firms with dispersed ownership are more noticeable or pronounced (Miller & Le Breton- Miller, 2006). However, the major shareholders might not always have a positive influence on the firm EQ, firm's financial performance and firm value because minority shareholders have little ability and incentive to monitor management (Sanchez & Meca, 2005).

However, a considerable amount of literature emphasises the conflict of interest between controlling and minority shareholders, which is a part of many agency dilemmas (La Porta et al., 2000). Concentrated ownership is more dominant in emerging markets. Like many emerging markets, state-owned companies and family-owned companies are a prevalent type of business in GCC markets (Saidi, 2011). However, because of globalisation, institutional ownership cannot be ignored in the region as well. In other words, institutional investors are also important and common in the region (Held & Ulrichsen, 2013). Therefore, this thesis concentrates mainly on family-owned companies (FOC), state-owned companies (SOC) and institutional ownership (INSTAT) as a common feature in the GCC countries. According to Cheung et al., (2011) due to the concentration of ownership in emerging markets, CG is increasingly important as the right of minority shareholders could be endangered. Therefore, it is important to examine the relationship between ownership structure, EQ and firm performance in a region.

The subsection below highlights the operation definition and general literature review of family ownership, state ownership and institutional ownership. In addition, the relationship between these three types of ownership, EQ, firm performance and firm value is discussed separately in the related literature review (CG and EQ in section 3.4, and CG, firm performance and firm value in section 3.5).

3.3.C.1. Family ownership

A. Definition of Family Ownership

There is no agreement on the definition of a family business or family ownership due to different interests in the studies. Gomez-Mejia et al. (2003), Haniffa & Cooke (2002) and Ghazali & Weelman (2006) use the proportion of family members on a board to measure the dominance of family members. Some studies identify family businesses where the family members hold a certain percentage of companies' shares. Anderson & Reeb, (2003) define a family business as one where family individuals own more than 20% of the outstanding shares. Prencipe et al., (2008) and Cascino et al., (2010) define family firms as those controlling families who own a 50% direct and indirect share of equity or controlling strategic decisions of the firm. In relation to this thesis, the operational definition of family ownership is that a dummy variable which takes the value of one when family members hold at least 20% of direct shares and serve on the board or in management and zero otherwise following Claessens et al, (2000); La Porta et al., (1999); Miller et al., (2007); Jaggi et al., (2009) and Yang, (2010) as the most used definitions in literature.

B.Literature of Family Ownership

Even though in developed markets there are a number of families, which own the majority of company shares, family companies are more dominant in developing countries and emerging markets like GCC countries. Burkart et al., (2003) claim that across countries, the characteristics of family firms are not the same, therefore, influence on decision-making processes vary widely across countries. The literature offers two arguments. Firstly, the alignment effect which leads to positive relationships between family firms, EQ, firm performance and firm value. Therefore the controlling families are concerned with their long-term success, reputation, wealth, mentoring and expanding their business (Salvato & Moores, 2010). Secondly, the entrenchment effect leads to lower EQ, firm performance and firm value because controlling families tend to mislead minority shareholders about the actual firm financial performance in order to expropriate their wealth (Salvato & Moores, 2010).

3.3.C.2.State Ownership

A. Definition of State Ownership

There is a different definition for state-owned companies. The OECD (2011) defines state-owned companies as enterprises where the state has a considerable amount of control through complete, majority or significant minority ownership. Shen & Lin (2009) measures state ownership as the percentage of common shares held by government divided by total issued outstanding shares of firms. Alfaraiah et al., (2012) uses a proportion of the ordinary shares held by government that own at least 5% of the firm shares to the total shares outstanding by the firm. Cornett et al., (2010) and Wu et al., (2009) define government ownership as to when the government holds 20% of company shares. Elghuweel (2015) measure government ownership through a general percentage of common shares owned by the state government. This thesis' operational definition of SOC is that a dummy variable which takes the value of one when the State holds more than 30% of the shares and zero otherwise (Prowse, 1992; Wang & Judge, 2011, Wang & Yung, 2011).

B.Literature of State Ownership

Government-owned companies are more noticeable in emerging markets as well. According to La Porta et al. (1999) the influence of state-owned companies depends on the quality of the

government. Two arguments have appeared in the literature with regard to the conflict of interest in SOC. On the one hand, these companies are crucial for the market because the government provides proper monitoring to the management and attempts to solve firm's issues in challenging time. Thus, the government protects investors, markets, contractors and suppliers (Eljelly, 2009). Eckel & Vermaelen (1986) claim that the government owned companies might provide more benefit to minority shareholders as the government is concerned with long-term investment, which lowers the cost of capital and improves firm performance.

On the other hand, other scholars claim that SOC is inefficient due to weak supervision and monitoring of management. By and large, government tends to own shares or hold a large equity due to greater political incentive and control over the firm rather than a commercial incentive (Le & Buck (2011). Shleifer & Vishny (1994) argue that SOC suffer more from agency problems compared to other companies due to the incentive of management to pursue their own interest. Mak & Li (2001) state that SOC are less likely to adopt good CG practice, leading to weak monitoring and accountability. Boardman & Vining (1989), Megginson et al., (1994), Shleifer, (1998), Cuervo & Villalonga (2000); Ramaswamy (2001), Megginson & Netter (2001) Orden & Garmendia (2005) Sun et al., (2002), Le & Buck (2011) and Wang & Yun (2011) report that due to the political pressure on management and political interference and incentives in SOC, these companies underperform.

3.3. C.3 Institutional Ownership

A. Definition of Institutional Ownership

There is a different definition of institutional ownership in the literature. Institutional investors have some features such as legal entities, which “act independently or as a large group as in the case of mutual fund” (Celike & Isaksson, 2013). Davis (2001) defines “institutional investors as specialised financial institutions which channel savings collectively on behalf of other investors to achieve a specific objective in terms of limited risk and maximum return”. A general view of institutional investors is that investment cooperations were set up to minimise transaction costs between investors, which are accomplished in a professional method (Bjuggren et al., 2007). In term of measurement, Ahmed & Duellman (2007) measure institutional investors as the percentage of common shares held by institutional investors divided by the total number of outstanding shares of firms. Edwards & Hubbard (2000) measure institutional investors as a percentage of a firm's outstanding stock held by the largest five institutional investors. Alfaraih et al., (2012) use a proportion of the

ordinary shares held by institutional investors that own at least 5% of the firm shares to the total shares outstanding by the firm. Following Dian, (2014), Namazi & Kermani (2013), Barako et al., (2006) and the majority of literature, the operational definition of institutional ownership is that a dummy variable which takes the value of one when the 5% or more of shares held by institutional investors (such as banks, financial service companies, insurance companies, mutual fund companies and pension fund companies) and zero otherwise (Celike & Isaksson, 2013; Dian, 2014; Namazi & Kermani, 2013; Barako et al., (2006).

B.Literature of Institutional Ownership

There has been more interest recently on the influence of institutional investors on EQ, firm performance and firm value. This is because they are active and would like to increase the value of their equity investment (Chen et al., 2007). Institutional investors have the power, ability, expertise and resources to oversee and control management's opportunistic behaviour in order to reduce agency problems (Shleifer & Vishny, 1986; Agrawal & Mandelker, 1990; Bathala et al., 1994; Bies, 2003). As they are knowledgeable shareholders in the business, sophisticated investors can access financial reporting easily compared to other shareholders (e.g.minority shareholders) (El-Gazzar, 1998; Bartov et al., 2001).

Nevertheless, other scholars argue that institutional investors may have different objectives when they become involved with firms. Institutional investors may be passive owners; which could reduce the efficiency of monitoring, when they have short-term goals (Al-Fayoumi et al., 2010; Cheng & Reitenga, 2009). Institutional investors may have an entrenchment effect in order to exploit the minority shareholders (Ruiz-Mallorquí & Santana-Martín, 2009), which reflect their focus on short-term gains and do not have an interest in maintaining control over the management.

In the following section, the study discusses the prior empirical literature between the board of directors, ownership structure, EQ and firm performance, and firm value.

3.4.Corporate Governance and Earnings Quality

3.4.A. Earnings Quality (EQ)

Earnings are known as a net income or the bottom line and are considered to be the most important and essential item in the financial statement (Wahlen et al., 2012). They are a predictor of future cash flow and provide information about how management allocates a

firm's resources (Dechow & Schrand, 2004). Previous studies find that investors give more attention to earnings than other measures (Biddle et al., 1995; Liu et al., 2002; Francis et al., 2003). They are commonly used as a core of decision usefulness for shareholders and stakeholders (Schipper & Vincent, 2003) and because of that, management may have an incentive toward managing earnings figures. Graham & Dodd first introduced the term EQ in security analysis in 1934. Following that, O'Glove (1987) touched on the term in his book '*Quality of earnings*'. However, the term EQ became more popular in Lev's hands in 1989 when he explained the characteristic of earnings to academic researchers and suggested that earnings data is the most important information in the financial statement (Dechow et al., 2010). In prior literature, there have been several attempts to define EQ. For instance, some studies explain EQ based on the economic income theory (Schipper & Vincent, 2003). Other studies define EQ through the actual performance of the firm (Dechow & Schrand, 2004). In the accounting practice world, international accounting bodies such as IASB²⁸ do not define EQ. Instead, they list a number of characteristics of high-quality accounting information such as "relevance, faithful representation and comparability" and others (Ewert & Wagenhofer, 2009). A high EQ can be defined as a faithful representation of financial performance for the current period, which enables financial report users to develop reasonable expectations of future performance (Wahlen et al., 2012). In other words, high financial reporting quality helps users of financial reports to make accurate decisions. From an investment perspective, low EQ is unacceptable because it misleads investors, misallocates the capital and decreases economic growth (Ewert & Wagenhofer, 2009). Conversely, high EQ conveys an accurate picture of company profitability and growth (Monks & Minow, 1995).

3.4. B. Corporate Governance (CG) and Earnings Quality (EQ)

Practitioners, policy-makers, investors and researchers are becoming increasingly aware of the fact that good CG practice improves the quality and accuracy of financial reporting. Unreliable financial information is associated with loose governance and opportunistic behaviour from managers (Giroux, 2004). Numerous research papers have been conducted to examine the association between CG and EQ. Therefore, there has been general agreement that good CG structures ensure adherence to best practice in legal and accounting standards to protect shareholders and increase EQ (Bekiris & Doukakis, 2011). However, there has been disagreement as to what constitutes good CG. This argument leads to a discussion about the relationship between main internal CG mechanisms and EQ in earlier studies.

²⁸ The International Accounting Standards Board (IASB).

3.4.B. Board of Directors and Earnings Quality (EQ)

3.4. B.1. CEO duality

The majority of the literature has agreed that there is a negative relationship between CEO duality and high EQ (Gul & Lai, 2002; Klein, 2002; Anderson et al., 2003; Firth et al., 2006; Murhadi, 2009; Dechow et al., 1996). Abdul Rahman & Ali, (2006) argue that when the CEO has a lot of power they can influence board decisions and can easily alter earnings figures. However, other scholars argue that the CEO duality has a positive effective in the firm as they have more knowledge and expertise about the firm's operation (Davis, 1991; Donaldson & Davis, 1999; Alexander et al., 1993; Pfeiffer & Salancik, 1978; Stoeberl & Sherony, 1985; Anderson et al., 1997). In addition, the controlling shareholders may reduce the negative impact of CEO duality and could lead to a positive influence due to the CEO working as a steward and focusing on leading the company to an improved performance rate (Chahine & Tohmé, 2009). Essen et al., (2013) find that during crisis CEO has positive influence in non-financial firms. Villanueva-Villar et al., (2016) argue that the benefits of CEO during the time of crisis outweigh the cost as taking extreme and necessary decision to drive the company out of the crisis.

3.4. B.2. Independent Director

The empirical literature is not consistent on the effect of independent directors on EQ. on the one hand, Dechow et al. (1996) indicate a positive relationship between independent directors and EQ using earnings management (EM)²⁹. Peasnell et al. (2005) and Klein (2002) find that independent directors increase EQ measured as lower discretionary accrual. Niu (2006) uses a sample of Canadian firms and report similar evidence to Klein (2002). Petra (2007) reports a positive relationship between the proportion of independent directors on the board and informative of earnings. Jaggi et al., (2009) state that the higher the number of independent directors the higher the likelihood of EQ and more effective monitoring. Xi et al., (2003) and Peasnell et al., (2006) document a positive association between the percentage of independent directors and EQ using (EM) abnormal accruals as a proxy. Kolsi & Grassa (2017) find positive association between independence directors and EQ in Islamic banks. On the other hand, Park & Shin (2004) and Gupta & Fields (2009) report that the proportion of independent directors on the board is not necessary to enhance EQ and CG practice due to the

²⁹ Earnings management (EM) occurs “when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers (Healy & Wahlen, 1998).”

concentration of ownership and weak legal system. Jaggi & Tsui (2007) suggest that the effectiveness of independent directors in constraining EM is limited when family members with majority ownership serve on the board. Cheung & Chan (2004) conclude that controlling families elect the board of directors, including independent directors and audit committee members, thus they have more influence on them, which may impair their role. Furthermore, independent directors act as advisors in the decision-making process rather than providing adequate monitoring activities and the financial reporting process (Cheung & Chan, 2004).

3.4. B.3. Royal Family Members

There are a limited number of studies focusing on the effect of politically connected firms on EQ (Bona-Sánchez et al., 2014). In addition, there is inconsistent evidence in the literature on the effect of politically connected firms on EQ. There are two trends regarding politically connected firms and their effect on EQ. On the one hand, there are spill-overs of benefits for the firms and their shareholders when the firms are politically connected (Faccio et al., 2006). Hiley (1987) claims that power helps to curb conflict and sometimes it may even prevent conflict from happening altogether. Furthermore, Firth et al., (2011) finds that politically connected firms and state-controlled firms have greater access to information related to any appeal or dispute against them and that the lawsuit is biased in favour of politically connected firms and state-controlled firms. This then leads to a lower loss for their stockholders' wealth. Nevertheless, the management of politically connected firms is less likely to manipulate financial information since these firms gain more financial and non-financial business benefits such as subsidies from the government. Using Venezuelan industrial firms, Batta et al., (2014) conclude that the quality of accounting information for firms with political connections is higher than non-politically connected firms due to higher media interest which leads to higher monitoring of management behaviour. As firms have connections with government officials and ruling party members, they have a lower risk of expropriation.

On the other hand, Alghamdi (2012) in his Ph.D. thesis introduced the royal family variable for the first time. Furthermore, his study reveals a negative association between the presence of royal family members on the board and EQ. His explanation for this result is that the royal family members perform managerial duties and have a low number of shares in the company. Therefore, they are more likely to manipulate earnings value for private benefits. In addition, as noted by Perrow (1979), the elite uses their power and involvement in the firm opportunistically to remunerate themselves. Using politically connected firms in Malaysia, Ball et al., (2003) conclude that these firms decrease the quality of financial reporting.

Furthermore, politically connected firms are more likely to conceal information of expropriation actions by politicians, and politicians possibly use their power improperly over regulatory policies as part of nepotism, political support to favour someone who has ties, relationships or connections with them or their “cronies” (Joseph et al., 2014). According to Bhattacharya et al., (2003) political connection is a link to more ambiguity at firm level due to the use of government covering which leads to insufficient monitoring from the market for these companies in terms of regulatory requirements and investor demands for transparency.

It is more difficult to predict earnings of politically connected firms in countries with high levels of corruption. For instance, Faccio (2010) provides evidence that analysts have a more difficult time predicting the earnings of a firm with political connections compared to their counterparts. This is mainly due to the fact that they have less need to raise capital from the public than other companies or that they could obtain the capital from a bank loan (Claessens et al., 2008; Faccio et al., 2006). The protection from the government encourages the management in politically connected firms to use more discretion over financial information which, in turn, leads to greater information asymmetry between the management and analysts. Chaney et al., (2011), Bona-Sánchez et al., (2014), and Riahi-Belkaoui, (2004) conclude that the quality of financial information of politically connected firms is much lower than their counterpart firms. Even though Abdul Rahman & Ali (2006) expect the presence of Malay directors on boards and audit committees to have benefited by preventing EM; they find no association between Malay directors and EQ.

3.4. B.4. BOARD SIZE

Tracing the empirical literature, many scholars find positive association between board size and EQ whereas others find no relationship between two these variables. Kolsi & Grassa (2017) find large boards are less likely to encourage EM in Islamic banks. Chtourou et al.,(2001); Peasnell et al., (2005) find a positive association between board size and EQ. Beasley,(1996) and Ahmed et al., (2006) find no association or a negative association between board size and EQ.

3.4. B. 5. Audit Committee Expertise

The majority of literature review Xie et al., (2003), Abbott et al., (2004) Bedard et al., (2004) and Lin & Hwang (2010) and Abernathy et al., (2015) find a positive association between audit committee expertise and EQ. Nevertheless, Lin et al., (2000), Abdul Rahman & Ali (2006) and Hua-Wei et al., (2012) find insufficient evidence between audit committee expertise and EQ.

3.4.C. Ownership Structure and Earnings Quality

3.4. C.1. Family-Owned Companies (FOC):

There have been a number of empirical studies conducted in the emerging and developed markets regarding the alignment and entrenchment effect of family controlled firms on EQ. The first group of studies supports the alignment effect theory. Family founders add unique characteristics and skills to the business, which can bring better accounting processes on board and increase EQ (Wan-Hussin, 2009). For instance, Cascino et al. (2010) and Prencipe et al., (2008) examine the quality of accounting information in family firms using a discretionary accrual model. They reveal that family firms on average show higher EQ. Prencipe & Bar-Yosef (2011) conduct their studies in countries with concentrated ownership and document a positive association between controlling families and high EQ. The study finds that family members may influence the effectiveness of CG mechanisms in enhancing EQ. Wang (2006) and Ali et al., (2007) investigate US firms and report a positive association between controlling families and EQ because controlling families are major shareholders and care about their reputation along with the long term success of their firm. Studies conducted in developing countries, Sanchez-Ballesta, & Garcia-Meca, (2007) and Jung & Kwon (2002) support the findings in the US. Family firms have lower discretionary accruals and the

earnings component can predict the future cash flow better; thus they may have higher EQ than non-family firms.

The second group of studies supports the entrenchment effect theory and argues that as controlling families have an incentive to fulfill their own benefits, they may engage in earnings manipulation (Fama & Jensen, 1983; Morck et al., 1988; Shleifer & Vishny, 1997). This expropriation from controlling families leads to low EQ. For example, studies conducted in emerging markets find that firms with concentrated family ownership have a lower EQ (Fan&Wong, 2002; Choi et al., 2007; Machuga& Teitel, 2009; Francis et al., 2005). Using a sample of family firms listed on the Korean stock market, Choi et al., (2007) note that family firms have lower earnings. Cheung & Chan (2004) claim that family ownership does not improve the monitoring function of boards of directors because of their influence on CG structures in the firms. Yang (2010) and Machuga & Teitel (2009) examines family firms in Taiwan and reports that the higher the level of shares owned by the controlling family, the lower the EQ, and the firms are more likely to engage in EM.

3.4. C.2. State Owned Companies (SOC)

Based on two theoretical perspectives, the empirical studies are not consistent of the effect of state ownership on EQ. On the one hand, a group of studies highlights the benefit of state ownership on EQ. For instance, Ding et al. (2007) and Wang &Yung (2011) use discretionary accruals to examine the impact of private versus state ownership on EQ in China and they conclude that a higher EQ in SOC.

On the other hand, a group of studies depicts the cost of state ownership on EQ. For example, Bushman et al., (2004) find that the greater the number of shares held by the government, the lower the transparency of financial reporting. However, Miller (2004) criticises the study for only having a small sample size and suffering from endogeneity. Furthermore, based on OECD findings, government ownership often underperforms due to political interference and passive ownership from the state, which have a significant influence on the firm's CG practice or environment and EQ. Alghamdi (2012) and Al-Janadi et al., (2016) investigate the association between SOC, CG structure, and EQ in Saudi Arabia. The results of this study indicate a negative relationship between these variables.

3.4.C.3. Institutional Ownership (INSTITC)

According to Cornetta et al., (2008), the percentage of shares owned by institutional investors directly influences their power and efficiency in monitoring management, which in turn

influence firm EQ. Using a sample of listed companies in the UK for the period 1997 to 2010, Wang (2014) concludes that institutional investors who own between 10% and 20% of shares deter EM. In addition, Dimitropoulos, (2011) examines among other things; the effect of institutional investors on EQ in the European football industry and documents that there is a negative relationship between institutional investors and aggressive EM. This result implies that institutional investors have the incentive and ability to protect the interest of shareholders, Koh (2003), Charitou et al., (2007) and Choi et al., (2013), determine that there is a reverse or inverse relationship between the percentage of shares owned by institutional investors and aggressive EM. Yu, (2008); Osmá & Noguer (2007), Park & Shin (2004), Rajgopal & Venkatachalam (1998), Pucheta-Martínez & García-Meca (2014), Rajgopal et al., (2002), Jiraporn & Gleason (2007), Chung et al., (2002). Jiraporn & Gleason (2007), Yeo et al., (2002), Pucheta-Martínez, García-Meca (2014), Chung et al., (2002) and Jiraporn & Gleason (2007) all agree about the effectiveness of institutional ownership in deterring EM (increase EQ). Institutional investors have more power than individual investors and are more likely to benefit the firm and constrain any wrongdoing, which may occur. This is especially true when they have long-term goals (Bies, 2003).

However, they may be passive owners, which in turn may lead to lower EQ (Al-Fayoumi et al., 2010; Cheng & Reitenga, 2009; Coffee, 1991; Jacobs, 1991; Porter, 1992). Based on a sample of 34 non-financial firms on the Portuguese stock market for the years between 2002 and 2007, Alves (2012), finds a negative relationship between institutional investors and EQ. This result indicates that the institutional investors have a passive role in terms of EQ, which increases the likelihood of encouraging EM or preferring certain EM for their own benefit. Kirby (1995) argues that the opportunistic behaviour of institutional investors is driven by short-term firm goals. These studies assume and find the negative influence of institutional ownership on EQ. Peasnell et al. (2000), Peasnell et al. (2005) and Siregar & Utama, (2008) indicate that there is no significant impact of institutional ownership on EQ. Ferreira & Matos (2008) argue that domestic institutional investors may not provide effective monitoring if they have business ties with firms, which they are invested in. In this respect, this data implies that institutional investors may not enhance EQ.

3.5. Corporate Governance, Firm Performance and Firm Value

3.5.A Board Of Directors, Firm Performance and Firm Value

3.5.A.1. CEO Duality

Consistent with the mixed theoretical literature, empirical evidence is also inconsistent. The first group of empirical studies is not supporting CEO duality. Dahya et al., (1996) and

Donaldson & Davis (1991) provide evidence that the market is more in favour of the separation of the two roles. Similarly, Haniffa & Hudaib (2006) examine 347 listed companies in Malaysian and find that firms which separate the two roles perform better than firms with a dual structure (CEO duality). Ho & Williams (2003) investigate a sample of 84 listed companies on the South African stock market and find a negative relationship between CEO duality and a firm's financial performance. Accounting for endogeneity problem, Rutledge et al., (2016) find a negative association between CEO duality and firm performance.

However, a second group of empirical studies supports CEO duality. Using a sample of 321 listed companies in the USA, Donaldson & Davis (1991), Rechner & Dalton (1991), Boyd (1995) , and Kiel & Nicholson (2003) find a positive association between CEO duality and firm financial performance. In addition, Chahine & Tohme, (2009) find that the controlling shareholders may reduce the negative influence of CEO duality because the CEO working as a steward focusing on leading the company to an improved performance rate. Chahine & Tohme (2009) suggest also that when resources are scarce and complexity is high, especially in emerging markets; CEO duality increases the firms' value. A very recent paper by Naushad & Malik (2015) report that CEO duality has a positive influence in bank performance in GCC countries. Alternatively, a group of studies finds no impact on CEO duality and firm financial performance. Baliga et al., (1996), Brickley et al., (1997), Rhoades et al., (2001), Vafeas & Theodorou, (1998), Laing & Weir, (1999), Weir & Laing, (2000) and Sanda et al., (2005) also find no relationship between CEO duality and firm financial performance.

3.5.A.2. Independent Directors

Tracing the empirical literature of independent directors, firm financial performance and, firm value the evidence is mixed due to the conflicting nature of the theoretical literature. The first stream of empirical literature documents a positive association between independent directors and the firm's financial performance. Weir et al., (2002) examine 311 UK listed companies during the period 1994 to 1996 and provide evidence of the positive and statistically significant association between a high proportion of independent directors on the board and the firm's value using Tobin's Q as the proxy. Using a sample of 744 US listed companies from 1990 to 2003, Gupta & Fields, (2009) find improved monitoring of managerial behaviour when the proportion of independent directors increased. Using a sample of 84 South African listed firms in 1998, Ho & Williams (2003) report a positive and significant association between the proportion of independent directors and physical and intellectual firm

capital performance. Accounting for endogeneity problems, Rutledge et al., (2016) find a positive association between independent directors and firm performance.

The second stream of empirical literature reports a negative of independent directors on the firm's performance. A number of studies argue that a higher proportion of external directors may lead to a lower performance rate due to independent directors performing weakly in an emerging market. Bozec (2005) investigates 25 firms listed in the Canadian stock market from 1976 to 2005 and finds a negative relationship between independent directors and firm performance. Adams (2009) finds that financial firms that faced the most distress during the 2008 and 2009 financial crisis and required government bailout, actually had more independent boards than the financial firms that did not need any government assistance. She suggests that this may have been due to lack of specific knowledge and experience. Finally, a number of empirical studies document no impact of independent directors on firm financial performance (Hermalin & Weisbach, 1991; Vafeas & Theodorou, 1998; Weir & Laing, 2000; Haniffa & Hudaib, 2006).

3.5.A.3. Board Size

Number of prior empirical studies documents the effect of large and small board size on firm performance and firm value. Using a sample of 452 firms in the US from 1984 to 1991, Yermack (1996) finds a negative relationship between large board size and a firm's value as measured by Tobin's Q. This indicates that large boards suffer from agency problems and are less effective (Yawson, 2006). Moreover, Gust (2009) documents a negative association between a large board and financial performance. In addition, Eisenberg et al., (1998) investigate 879 small and medium Finnish firms from 1992 to 1994 and reports a similar result to Yermack (1996). Haniffa & Hudaib (2006) conducts a study in a sample of 347 firms listed on the Malaysia stock market and provides different evidence between a large board and financial performance (ROA) and firm value (Tobin's Q). Loderer & Peyer (2002) find a positive association between board size and performance (ROA) and a negative association between board size and Tobin's Q.

On the other hand, studies argue that large boards can increase the monitoring and opportunity in business through the diversity of their skills, experiences and contacts (Haniffa & Hudaib, 2006). Beiner et al., (2006) report a positive association between large boards and financial performance in a Swiss company sample. Consistent with Sanda et al., (2005) ,and Beiner et al., (2006) Henry (2008) report a positive relationship between two variables using Australian firms.

3.5.A.4. Board Meetings

The empirical findings are not consistent in the literature regarding the association between board meetings, firm performance, and firm value. A number of prior studies find a positive relationship between the frequency of board meetings and the firm's performance (Vafeas, 1999; Ntim, 2009). Vafeas (1999) investigates the effect of board meeting frequency and firm performance using 307 firms from 1990 to 1994. While he finds a positive relationship between board meetings and firm performance (ROA), he also concludes that there is a reverse relationship between board meetings and firm value (Tobin's Q). In other words, the value of the firm reduces by the market when the board meets more frequently. He also finds that an independent director and large board meet more often in response to poor performance. In addition, these boards meet more often the following year as well which results in an improvement in the firm's value. In addition, Vafeas (1999) supports the findings

of Lorsch & Maciver (1989), that board members increase their meetings in times of difficulty. However, Brick & Chidambaran (2010) reveal that there is a positive and direct association between a firm's performance and board meetings, which reflect an increase in monitoring.

3.5.A.5. Females on The Board

Referring to empirical literature of the effect of female director on firm performance and firm value, the findings are inconsistent and inconclusive. The first set of studies supports the advantage of having female directors on the board of directors (Adams & Ferreira, 2009; Anderson et al., 2011). Carter et al. (2003) and Francoeur et al., (2008) find a significant and positive association between diversity of the board measured by gender and ethnicity and the firm's value using Tobin's Q as the proxy. This means firms with more females on the board have better value. Using 42 Mauritius listed companies for the year 2007, Mahadeo & Soobaryen (2012) examine the influence of board diversity on the firm's financial performance and finds that the presentation of females is poor and no females act as chairperson on any listed companies due to the domination of male directors on the board. Traditionally, females have not been accepted in such a powerful role, especially in Asian countries. However, they find that females have a positive effect on the short-term performance of the firm.

The second set of studies points out the disadvantage of having female directors on the board. A number of studies claims that the involvement of female directors has a negative effect on firm performance and firm value (Adams and Ferreira, 2009; Smith et al., 2006) due to a lack of qualifications and skills needed for directorship. Thus, few women sit on boards and monitor closely. This leads to an increase in costs for the agency and a reduction in firm performance and value (Cashman et al., 2012; Falato et al., 2014; Field et al., 2014). In addition, Terjesen et al., (2009) and Shrader et al., (1997) find that because females lack business expertise, they actually have a negative influence on firm value. Al Mamun et al., (2013) also conclude that more than half of female members on the board have a connection with a board member in Malaysia and so they would not have a positive effect on the firm's performance. Alternatively, Rose (2007) and Zahra & Stanton (1988) document no link between the presence of a female on the board and the firm's financial performance.

3.5.A.6. Relatives

There are two trends in literature highlighting the advantage and disadvantage of the presence of relative in the group. Chen & Hsu (2009) examine family firms in Taiwan and conclude that family members may abuse their position by the misuse of their power to fulfill their own benefits and might also be responsible for the reduction of the effective use of R&D. Based

on the sample of Taiwanese sample firms, Yeh & Woidtke (2005), Chrisman et al., (2005), Sharma et al. (2007), Schulze et al. (2003), and Voordeckers et al. (2007) find that the higher the percentage of relatives or family members on the board in the controlled family firm, the lower the firm's value. Using Canadian data, Morck et al. (2000) concludes that family members are usually less productive and talented as they pass down through the generations affecting the firm's performance negatively. Additionally, they argue that business acumen and entrepreneurial spirit are only partly inherited. Nevertheless, the second group of studies supports the theory that the involvement of family members in a business reduces the agency problems compared to other businesses (Anderson & Reeb, 2003; Demsetz & Lehn, 1985; Fama & Jensen, 1983) as there is less need to monitor. Also, their incentive is to maximise their wealth (Cruz et al., 2010; Fama & Jensen, 1983).

3.5.A.7. Royal Family Members and Government Officials on The Board

Referring to existing empirical literature, there are two arguments. On the one hand, a number of studies document the benefit of the politically connected firm for better performance and value (Tsang, 1998). Goldman et al., (2009) document that the biggest impact from having politically connected firms comes from the belief of the market that political connection benefits the value of firms. Khanna & Palepu (2000), Khanna & Rivkin (2001) and Xu et al., (2015) find that the politically connected member in the firm increases firm performance, firm value and reduces financial risk.

On the other hand, other studies refer to the cost of politically connected firms, which in turn leads to lower financial performance (Shleifer & Vishny, 1994). For instance, some companies perform poorly because the connected manager lacks the skills to run the company. Empirical evidence provides by Boubakri et al., (2008) and Fan et al. (2007), who find that a firm may underperform when a high number of board members are politically connected. This may also increase the probability of an entrenchment effect of the royal family. Faccio et al., (2006) investigate politically connected firms in 47 countries and note that the difference between connected and non-connected firms can also be based on the level of corruption and the degree of economic development. They also report that politically connected firms have higher leverage, value and market share and pay lower taxes. However, non-politically connected firms perform better based on accounting measurement. A possible explanation for the underperformance of politically connected firms is that first, firms may use the political connection to overcome some problems and second, a politically connected manager or owner lacks important skills to run a successful company.

3.5.B. Audit Committee

3.5.B.1. Independent Audit Committee

The findings regarding the association between audit committee independence firm performance and firm value are mixed. Harrison (1987), Wild (1994), and Sun & Cahan (2009) find a positive relationship between the establishment of these committees for monitoring and a firm's financial performance because most of these committees are composed of independent directors who are in a better position to protect the interest of shareholders (Vefas,1999). Chan &Li (2008) report a positive relationship between independent members in an audit committee and a firm's value. However, Hsu (2008); Klein, (1998); Reddy et al., (2008) and Cotter & Silvester (2003) report no association between the independence of an audit committee and a firm's value.

3.5.B.2. Audit Committee Size

The findings regarding the association between audit committee size and firm performance and firm value are mixed. Previous studies by Dalton et al. (1999), Saleh et al. (2007), Mir & Souad (2008), Karamanou & Vafeas (2005), claim that the large audit committee size is beneficial for performance as they have wider knowledge base. Coleman et al., (2007) and Kipkoech (2016) conclude a significant and positive association between audit committee size and a firm's performance. Alternatively, using listed companies in Malaysia and Singapore, Mak & Kusnadi (2005), Amer et al., (2014), and Aanu et al., (2014) report no relationship between two variables.

2.5.B.3. Audit Committee Meeting

The findings in literature of the effect of audit committee meeting on firm performance and firm value are inconclusive. Azam et al. (2010) report a positive association between the frequency of audit committee meetings and a firm's performance using return on equity (ROE) as the measurement. Amer et al., (2014) find a positive effect of an audit committee meeting on the firm's performance. Aanu et al. (2014) report an insignificant relationship between two variables. In addition, Krambia-Kapardis & Psaros (2006) argue that these committee meetings were simply "tokenistic".

3.5.B.4. Audit Committee Expertise

Tracing the empirical literature review, few studies examine the relationship between audit committee expertise, firm performance and firm value. Chan & Li (2008) report a positive relationship between expert members in an audit committee and the firm's value. Hsu (2008) documents a significant association between audit committee expertise and firm performance. Amer et al., (2014) and Kipkoech (2016) report a positive association between audit committee expertise and firm performance.

3.5.C. Ownership Structure, Firm Performance, and Firm Value

3.5.C.1. Family Owned Companies (FOC)

Based on perspectives of alignment effect theory and entrenchment effect theory, the controlling families behave differently. a number of studies claims that family ownership and control jeopardises the wealth of the shareholders and the efficiency and effectiveness of the firm (Martinez et al., 2007). This is due to some features of family firms such as the favouring of family managers and the possibility of exploiting the monitoring of shareholders, which would lead to lower firm performance. Filatotchev et al., (2005), Cho (1998), Short & Keasey (1999), Gugler et al. (2004), Chu & Cheah (2006), Dow & McGuire, (2016) and Thomson & Pedersen (2000) find a negative association between family members on the board and its performance.

On the other hand, other studies argue that family are also concerned about the family name and reputation; which is a substantial element in the region and shows high performance and success within their family business (Denis & Denis, 1994). For instance, a number of prior studies documents that family owned businesses have better CG (Lee, 2006), more substantial growth, great market value and lower monitoring costs (Martikainen et al., 2008; Barontini & Caprio, 2005; Villalonga & Amit, 2006). This is because they understand their own business (Anderson & Reeb, 2003) and family members are employed in management as stewards of the firm. Kappes&Schmid, (2013) , Miller et al., (2008) and Majumdar & Varadarajan (2013) argue that commitment from family businesses adds to the performance of these firms.

3.5.C.2. State Owned Companies (SOC)

The findings of the effect of government ownership on performance in literature are inconclusive. A group of scholars argues that the government can monitor the management effectively and tackle any issue that may involve the firm during a bad year (Wang et al., 2008). For instance, Sun et al. (2002) and Chen (1998) find a positive relationship between state-owned companies and the firm's performance in China. Blanchard & Shleifer (2000)

claim that government owned firms are successful and perform as well as other companies. In addition, Bos (1991) suggests two classifications of the influence of government ownership in the firm: perfectly competitive environment and non- competitive environment. In relation to the former, government ownership is inferior to firm performance and these firms lack effective monitoring. In relation to the latter, the government is more likely to act as a regulator and to monitor the management effectively and can balance between social, political, and firm objective. Otman (2014) claims that the UAE government is continuously supporting new initiatives and laws to protect investors in the UAE financial market. Also, the UAE government is attempting to set an example for other businesses in terms of trenchancy corporate monitoring.

Others argue that firms with state ownership encourage the management to focus on other goals and objectives such as social and political, rather than firm profitability, which weakens the quality of CG (Shen & Lin, 2009). A number of studies conduct in developed and developing countries conclude that there is a negative association between state ownership and firm performance (Sun & Tong, 2003; Gupta, 2005; Liu & Sun, 2005; Wei et al., 2005; Xu & Wang 1997; Megginson & Netter, 2001). Heracleous (2001) finds that state-owned firms have lower performance rates compared to private firms in Singapore due to these companies not having a clear objective, which leads to inefficient performance. Saleh et al. (2009) state that government ownership lower the firm's performance due to selecting directors based on political and social goals rather than their experiences.

3.5.C.3.Institutional Ownership (INSTITC)

The empirical literature documents the advantage and disadvantage of institutional investors on firm performance and firm value based on theoretical literature. On the one hand, using a data of 27 regions, Ferreira (2007) investigates the role of institutional shareholders and reports a high performance and value and lower capital expenditure when the firm has a greater percentage of shares owned by institutional investors. Nesbitt (1994) and Smith (1996) stress a positive relation between institutional ownership and firm performance. Pound (1988) proposes three categories regarding the effect of institutional shareholders on performance: (1) efficient monitoring hypothesis, (2) conflict of interest hypothesis, and (3) strategic alignment hypothesis. Studies achieve a positive relationship between institutional ownership meaning that institutional investors have more expertise than other shareholders to monitor management and also to lower the cost, which in turn enhances corporate performance. This also means that the result is following an efficient monitoring hypothesis.

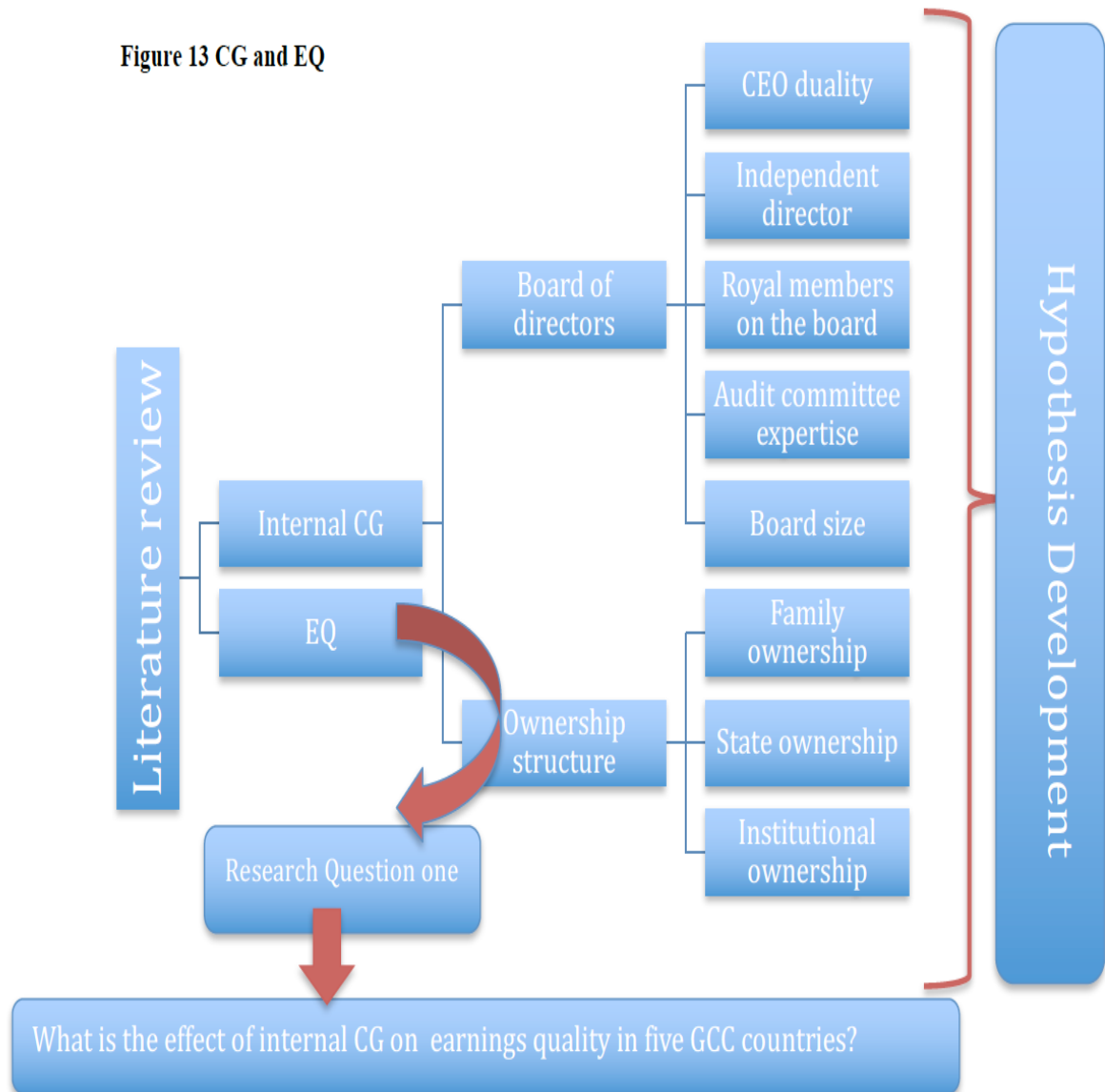
On the other hand, Maug (1998) has linked the effectiveness of institutional ownership to the number of shares. If they have few shares, they have less incentive to monitor the management and they may liquidate their holding when the company is underperforming and vica versa. This could be the result of 'free-riding' among institutional investors making collective action more difficult (Black 1990; Admati, et al., 1994). In fact, a number of studies consistently have concluded similar outcomes based on these classifications (Coffee, 1991; Bhide, 1994; Demirag, 1998). This also means that the result is following conflict of interest hypothesis. Nevertheless, other scholars Agrawal & Knoeber, (1996), Karpoff et al. (1996), Duggal & Millar (1999), and Faccio & Lasfer (2000) claim that there is no association between institutional investors and firm performance.

3. 6. Hypothesis Development

The aim of this section is to develop hypotheses based on the literature review. Regarding the board of director's attributes and ownership structure, predictions of direction or signs of a coefficient have been specified based on the findings in the literature. Even though the results in the literature, in general, are mixed, a direction has been predicted because some of these results have a logical explanation and outweigh contrary findings, which may influence the expectations. In this section, the study provides a brief discussion for each attribute or variable along with the expected hypotheses for each research question.

3.6.A. Internal corporate governance and EQ

Figure 13 CG and EQ



3.6.A.1. CEO Duality and EQ

Looking at CEO duality, there are conflicting views with regard to their effectiveness. The majority of existent literature supports the notion that the separation between the CEO role and the chair role leads to more effective CG and high EQ. Therefore, the research follows the majority (Gul & Lai, 2002; Klein, 2002; Anderson et al., 2003; Firth et al., 2006; Murhadi, 2009) and best practice of CG recommendation and hypothesizes that:

H₀₁: The presence of CEO duality decreases earnings quality.

3.6.A.2. Independent Directors and EQ

As explained earlier, there is a two-sided arguments in the literature with regard to independent directors on the board of directors. In addition, some scholars claim that independent directors in emerging countries have a ceremonial role on the board and they are probably following the management (Mahadeo & Soobaroyen, 2012). Thus, they have weak involvement because the selection of independent directors more than likely does not meet the recommendation of the code, and copyies the CG style in western countries (Ferrarini & Filopelli, 2014). However, even though there are only a few negative findings with limited effectiveness of independent directors on a board of directors in the literature, the majority (Peasnell et al., 2005; Klein, 2002; Petra, 2007; Xi al et, 2003) have agreed that there is a direct and positive relationship between independent directors and EQ. Therefore, the research follows the majority and hypothesizes that:

H₀₂: a high proportion of independent directors lead to higher earnings quality.

3.6.A.3. Royal Family Members and EQ

As mentioned earlier, the economic environment of the GCC region has a weak legal system, poor enforcement and protection of shareholders' rights. Based on the earlier argument and discussion, royal family members have relatively stronger powers. It is not necessarily that the royal family member on the board behaves opportunistically to achieve personal benefit at the expense of other shareholders especially a minority one (Al-Hadi et al., 2016). Other scholars also confirm the benefit of having royal family members on the board as they can stop the intervention of government that hinder the expansion of the firm domestically and

internationally (Hertog, 2012). Many members of the royal family are appointed as non-executive directors on the board of directors (Alghamdi, 2012). Therefore, they always seek to protect themselves from any unfavourable outcomes, which may influence their status (Henry & Springborg, 2010). Thus, they have an incentive to monitor management effectively and discourage earnings management, leading to higher EQ (Batta et al., 2014). In other words, as ruling family members have the political and economic influence they might also have a tendency to protect other investors' interests and resist altering the earnings figures (Goldman et al., 2009). Accordingly, the research hypothesizes that:

H₀₃: a higher proportion of royal family members on boards of directors increases earnings quality.

3.5.A.4. Board Size and EQ

With regard to the size of the board, there are two arguments in the literature, however, the best practice of CG and GCC countries supports the notion that the size of the board depends on the firm structure. The research follows the majority of literature (Xie, 2003; Yu, 2008; Kline, 2002) and predicts the following hypothesizes :

H₀₄: A large board size increases earnings quality.

3.6.A.5. Audit Committee Expertise and EQ

With respect to audit committee expertise, the findings are not consistent in the literature and each side has a different argument. However, this research follows the best practice of CG recommendations, which supports and encourages audit committee to have a director with financial expertise. In addition, the research follows the majority of literature (Xie et al., 2003; Abbott et al., 2004; Bedard et al., 2004; Lin & Hwang, 2010; Abernathy et al., 2015) and hypothesizes that:

H₀₅: A higher proportion of audit committee member with financial expertise increases earnings quality.

3.6.A.6. Family Ownership and EQ

Based on the previous discussion, two theories emerge to explain the conflict between the controlling families and the minority shareholders in FOC: (1) alignment effect theory and entrenchment effect theory. Using these theories, the controlling families act differently. In relation to the entrenchment effect theory, the controlling families attempt to protect their

interests even at the expense of minority shareholders (Stulz, 1988, La Porta et al., 1999). Under the alignment effect theory, the interest of the controlling families aligns with the minority shareholders and this alignment leads to effective monitoring of firms by the controlling families (Gomes, 2000). Many studies undertaken in developing countries reveal that the entrenchment effect of family ownership is more pronounced in these countries due to the poorly protected environments of shareholders and emerging markets (Choi et al., 2007; Machuga & Teitel, 2009). Therefore, the research follows the majority of prior studies and hypothesizes that:

H₀₆: Family ownership has a negative impact on earnings quality.

3.6.A.7. State Ownership and EQ

Based on the discussion earlier, there is a potential conflict of interest between government as major shareholders and minor shareholders. The government's political incentive might outweigh economic incentive leading to poor EQ. Therefore, the government may have different interests or goals to pursue and prefer to benefit themselves. Accordingly, following many previous studies (ALghamdi, 2012; Al-Janadi et al., 2016) that find a negative influence of government ownership on EQ, the research hypothesizes that:

H₀₇: State ownership has the negative impact on earning quality.

3.6.A.8. Institutional Ownership and EQ

Referring to an earlier discussion, the literature is not consistent with regard to the effect of institutional ownership on EQ. However, the majority of studies agree that they have a positive influence on EQ. Therefore, the research follows the majority (Pucheta-Martínez & García-Meca, 2014; Rajgopal et al., 2002; Jiraporn & Gleason, 2007) and hypothesizes that:

H₀₈: institutional ownership has a positive impact on earning quality.

Table 3.6.A: Hypotheses Development of CG and EQ:

1	H ₀₁ : The presence of CEO duality decreases earnings quality.
2	H ₀₂ : a high proportion of independent directors lead to higher earnings quality.
3	H ₀₃ : A higher proportion of royal family members on boards of directors increases earnings quality.
4	H ₀₄ : A large board size increases earnings quality.

5	H ₀₅ : A higher proportion of audit committee member with financial expertise increases earnings quality
6	H ₀₆ : Family ownership has negative impact on earnings quality.
7	H ₀₇ : State ownership has negative impact on earning quality.
8	H ₀₈ : institutional ownership has positive impact on earning quality.

3.6.B. Internal Corporate Governance, Firm Performance and Firm Value:

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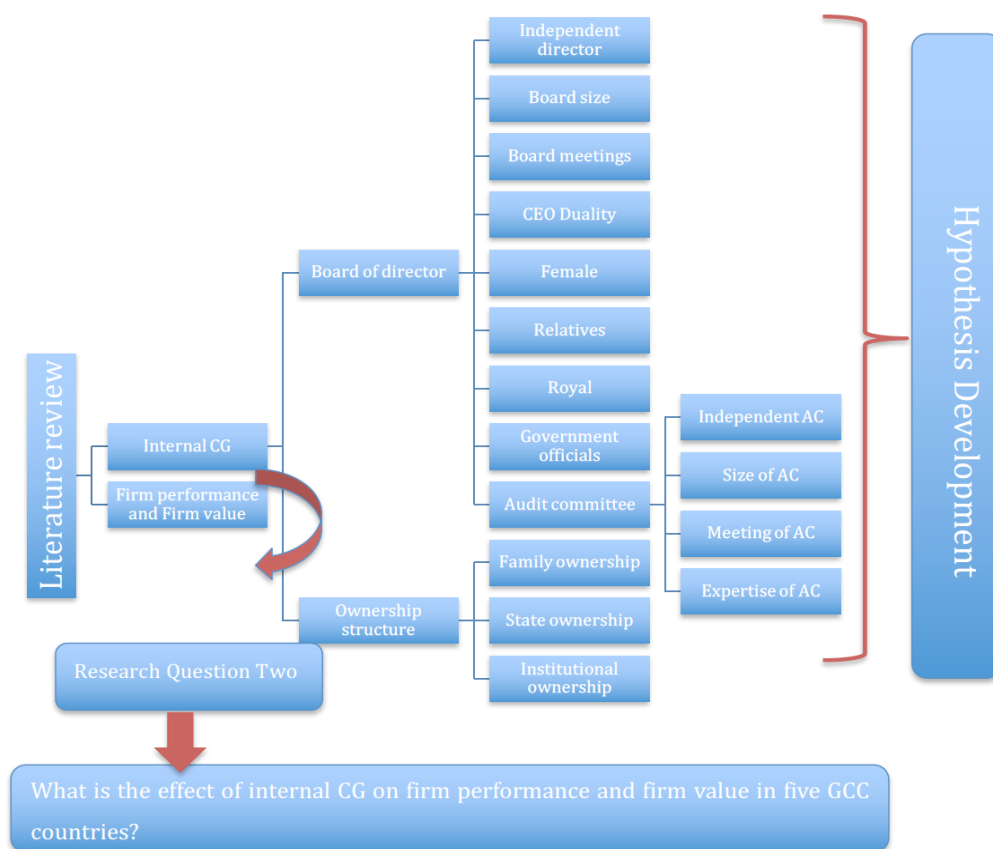


Figure 5 CG, Firm Performance, Firm Value

3.6. B.1. Principal Component Analysis (PCA)

In the previous section, the research discussed extensively the literature review of CG attributes, firm performance and firm value. However, the research had 16 variables of CG, which include ownership structure, the board of directors' composition and an audit committee. In addition, the study accounts for cultural specific variables, which reflect the uniqueness of studies in the region such as royal family members and government officials on

the board. Following Larcker et al., (2007), the study avoids using CG index due to the fact that it suffered from a lot of econometrics problems. Therefore, to alleviate the measurement error and avoid multicollinearity, the study uses principal component analysis (PCA). An extensive review and explanation of the process of PCA and how to get the factors, is discussed comprehensively in the methodology chapter (4) (section 4.3.4). Briefly, the study includes factor components of CG in the regression, which help to see the relationship between multiple measures of CG and the explanatory variables. Therefore, seven factors have been identified as indicators of 16 CG variables. These factors explain 62.7% of the total variance of the original data.

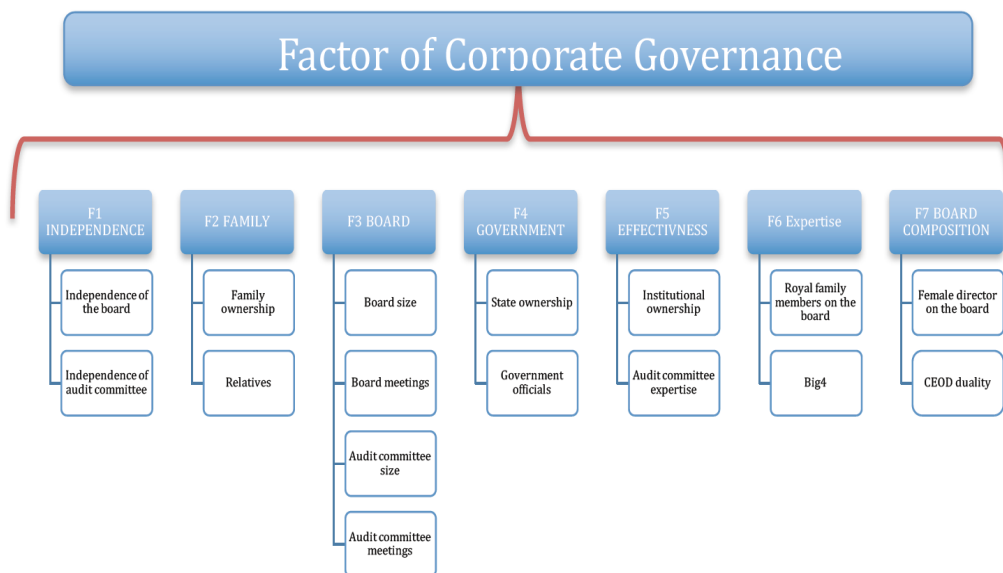


Figure 4 Factor of Corporate governance

3.6.B.2. Independence Factor, Firm Performance and Firm Value

The independent factor includes independent directors on the board of directors and audit committee. Arguably, a high percentage of independent directors on the board of directors and audit committee influence firm performance positively due to their effective monitoring (Bryd & Hickman, 1992). However, others argue that independent directors in emerging countries are not applicable as it is “symbolic” but they are more likely to follow the management (Mahadeo & Soobaroyen, 2012; Bayoun et al., 2013; AlMusalli & Ismail, 2012). Nevertheless, the study follows the notion of CG code in the international practice and GCC countries and the majority of findings (Manhena & Tauringana, 2008; Gupta & Fields, 2009; Ho & Williams, 2003) and hypothesizes that:

H₀₁: There is a positive association between independence factor, firm performance and firm value.

3.6.B.3. Family Factor, Firm Performance and Firm Value

Family factor encompasses family ownership and relatives on the board. Based on a prior discussion on relatives and family ownership, the research argues that these two variables are prevalent in the emerging markets (La Porta et al., 1999) to protect family wealth and power (Cruz et al., 2010), which in turn, lead to better performance (McConaughy et al., 2001; Villalonga & Amit, 2006; Kappes&Schmid, 2013). Thus, they would play an effective role in the company, which results in better financial performance. Accordingly, the research hypothesizes that:

H₀₂: There is a positive association between family factor, firm performance and firm value.

3.6.B.4. Board Factor, Firm Performance and Firm Value

Board factor contains board size, board meetings, audit committee size and audit committee meetings. Referring back to discussed literature of board size, meetings, audit committee size and meetings; even though there are few negative findings in the literature, the majority of prior studies argue that a large board and audit committee and the high frequency of board and audit committee meetings leads to better firm performance and firm value. Accordingly, despite different findings, the study follows the majority of prior studies' findings, the recommendation of CG code and claims that the board factor leads to high firm performance and hypothesizes that:

H₀₃: There is a positive association between board factor, firm performance and firm value.

3.6.B.5. Government Factor, Firm Performance and Firm Value

Government factor encompasses government ownership and government officials on the board. Based on the prior discussion on these two variables, the research argues that the involvement of these two groups is common in the emerging markets (La Porta et al., 1999) to retain their power on the firms. Thus, they may not play an effective role in the company, which results in poor performance. Accordingly, the study follows the majority of the studies (Sun & Tong, 2003; Gupta, 2005; Liu & Sun, 2005; Wei et al., 2005) and hypothesizes that:

H₀₄: There is a negative association between government factor, firm performance and firm value.

3.6.B.6. Effectiveness Factor, Firm Performance and Firm Value

The researcher had difficulty giving a name to this factor initially. However, other researchers such as Larcker et al., (2007) mention the difficulties in assigning a name to some factors. This factor captures institutional ownership and audit committee expertise and the study calls them effectiveness because both are expected to have effective monitoring. Based on a literature review of institutional ownership and an audit committee, despite some negative findings, the majority of the studies' findings concludes that institutional ownership (McConnell & Servase, 1990; Yan & Zhang, 2009) and audit committee expertise (Amer et al., 2014; Kipkoech, 2016) lead to better firm performance and firm value. Therefore, the research follows these studies and hypothesizes that:

H₀₅: There is a positive association between effectiveness factor, firm performance and firm value.

3.6.B.7. Expertise Factor, Firm Performance and Firm Value

Expertise factor includes royal family members on the board and Big4 audit firms. Based on the discussion of royal family members and Big4 firms literature, the study argues that by giving the royal family members legitimacy, privileges and status, their involvement has benefits for the firms and their shareholders which result in better firm financial performance (Faccio et al., 2006; Fisman, 2001; Johnson & Mitton, 2003; Charumilind et al., 2006; Leuz & Oberholzer-Gee, 2006; Siegel, 2005). Additionally, despite the mixed results in the literature of Big4 firms, the majority of the studies (Van Tendeloo & Vanstraelen, 2005, 2008; Lin & Hwang, 2010; Charles et al., 2010; Chen et al., 2005) conclude that Big4 firms increase firm performance and firm value. Accordingly, the research hypothesizes that:

H₀₆: There is a positive association between legitimacy factor, firm performance and firm value.

3.6.B.8. Board Composition Factor, Firm Performance and Firm Value

Board composition factor captures females on the board and CEO duality. Halawi & Davidson (2008) document a low female involvement on boards, around 1.5% in the GCC. Accordingly, the research argues that since there are few female directors on the board and

because of the culture in emerging markets, it is likely they have a lack of qualifications, skills and business expertise needed for directorship, which might negatively influence firm performance and firm value (Terjesen et al., 2009; Adams & Ferreira, 2009; Smith et al., 2006; Falato et al., 2014; Field et al., 2014). With regard to CEO duality, the code of GCC countries and best practice requires separation between the two roles. In addition, this study follows the majority of literature, which finds a negative association between CEO duality and firm performance (Haniffa & Hudaib, 2006; Ho & Williams 2003; Rutledge et al., 2016). Therefore, the study hypothesizes that:

H₀₇: There is a negative association between board composition factor, firm performance and firm value.

Table 3.6.B: Hypotheses Development of CG, Firm Performance and Firm Value:	
1	H ₀₁ : There is a positive association between independence factor, firm performance and firm value.
2	H ₀₂ : There is a positive association between family factor, firm performance and firm value.
3	H ₀₃ : There is a positive association between board factor, firm performance and firm value.
4	H ₀₄ : There is a negative association between government factor, firm performance and firm value.
5	H ₀₅ : There is a positive association between effectiveness factor, firm performance and firm value.
6	H ₀₆ : There is a positive association between expertise factor, firm performance and firm value.
	H ₀₇ : There is a negative association between board composition factor, firm performance and firm value.

3.5.C Attendance of Royal Family Members at Board Meetings, Firm Performance and Firm Value

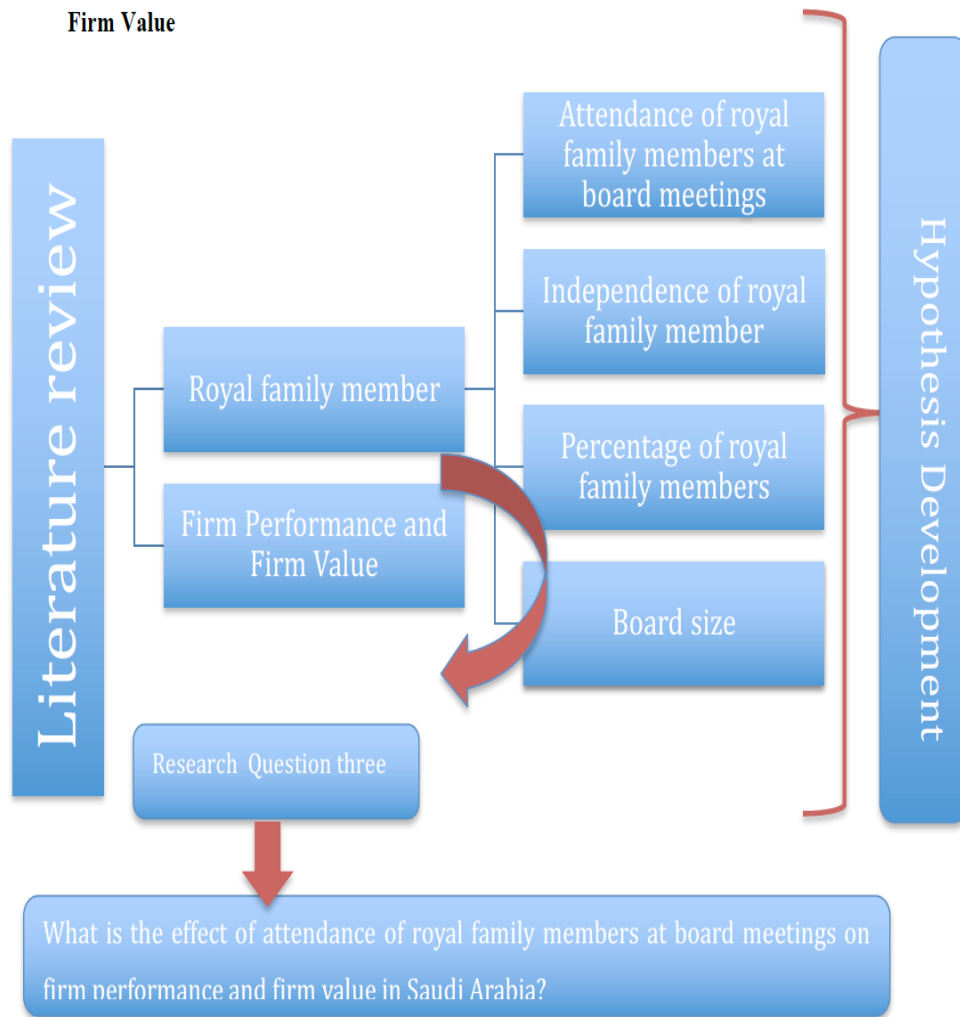


Figure 5 Royal Family Members, Firm Performance and Firm Value

3.5.C.1. Royal Family Attendance at Board Meetings, Firm Performance and Firm Value

The study is interested in examining both royal family members and board meeting. Hence, the study merges both variables and creates a variable called the attendance of royal family at board meetings³⁰. There is no literature available on the attendance of politically connected board members at board meetings on firm performance and firm value. So, this study builds this variable based on board meeting variable, and royal family members on the board variable. Thus, there is no need to repeat the empirical literature of board meeting and royal family member. Based on the argument in the literature of both (board meeting and royal family members), the association between a firm's performance and the number of board meetings is still not clear. With respect to royal family members, the study argues that royal family members are able to use their prestige and power to monitor the management effectively (Alghamdi, 2012). Also, the study argues that royal family members can use their privilege to provide the company with access to valuable resources such as debt financing (leverage) (Pfeffer & Salancik, 1978) and to handle uncertainty within unpredictable economic activities (Li & Zhang, 2007). Ye & Li, (2017) state that the attendance of politically connected directors at board meeting refers to their diligence. This also indicates that they can constrain the controlling shareholder expropriation of minority shareholders and increase the productivity and operational efficiency of the firm. Royal family members have political power and can use their connections to the benefit of their firms (Held & Ulrichsen, 2013), for example, by helping them to obtain resources from the state without the help of intermediaries (Fisman, 2001, Faccio, 2006). If they attend and encourage more board meetings, the firm's performance and firm value would improve. Therefore, the study hypothesizes that:

H₀₁: A higher number of attendances of royal family members at board meetings increase firm performance and firm value.

³⁰ The detail of creating this variable discussed in methodology chapter.

3.5.C.2. Independence Of Royal Family Members On The Board, Firm Performance and Firm Value

A high percentage of independent directors on the board is beneficial due to the fact that they have the capability to monitor management (Dunn, 1987) and they can provide a response to poor performance (Weisbach, 1988; Bryd & Hickman, 1992). Independent politically connected directors may play a significant role in monitoring due to the fact that they care more about their reputation than other independent directors. Du et al., (2014), Wang (2015), Hanidda & Hudaib, (2006), and Wanyama et al., (2009) find that independent politically connected directors have a positive effect on the performance of a private firm. However, other argue that firms are more likely to follow CG code symbolically in the selection of independent directors and to copy CG style in the western countries (Ferrarini & Filopelli, 2014). Nevertheless, the Saudi Arabian CG code requires the engagement of independent directors on the board as it benefits the firm's performance. Since the majority of literature (Mangena & Tauringana, 2008, Du, 214; Wang, 2015) agrees on the positive effect of politically independent directors on a firm's performance, the assumption is that if royal family members on the board act as an independent director, they can adopt their role and provide effective oversight. Thus, they can act in a subject manner and protect the wealth of shareholders. The study follows the majority of findings and hypothesizes that:

H₀₂: a higher proportion of independent royal family on the board increases firm performance and firm value.

3.5.C.3. Royal Family Members on The Board of Directors, Firm Performance and Firm Value

Based on the discussion in the literature, the study argues that given their power, prestige, privileges and status, the involvement of royal family members has more benefits for the firms and their shareholders, which result in better firm performance and firm value (Faccio et al., 2006; Fisman, 2001; Johnson & Mitton, 2003; Charumilind et al., 2006; Leuz & Oberholzer-Gee, 2006; Siegel, 2005). Accordingly, the study hypothesizes that:

H₀₃: A higher proportion of royal family members on boards of directors increases firm performance and firm value

3.5.C.4. Board Size, Firm Performance and Firm Value

Regardless of the conflict in the literature, the research argues that there is more monitoring and cooperation among members of a large board, which leads to better financial performance. The majority of the studies support (Haniffa & Hudaib, 2006; Yu, 2008; Kline, 2002) this notion, thus, the study predicts and tests the following hypothesizes:

H₀₄: A large board size increases firm performance and firm value

Table 3.6.C: Hypotheses Development of Royal Family Member, Firm Performance and Firm Value

1	H ₀₁ : A higher number of attendances of royal family members at board meetings increase firm performance and firm value.
2	H ₀₂ : a higher proportion of independent royal family on the board increases firm performance and firm value.
3	H ₀₃ : A higher proportion of royal family members on boards of directors increases firm performance and firm value
4	H ₀₄ : A large board size increases firm performance and firm value.

Chapter 4

Methodology

“The research design helps the researcher to conduct the investigation to meet the objective of the research (Saunders et al., 2009)”.

4.1 Introduction

The previous chapter documents review of the extant literature and development of hypotheses. This chapter addresses the choice of research design, the description of the data and methodologies used to examine three research questions. Eisenhardt & Graeber (2007) claim *“sound empirical research begins with a strong grounding in related literature, identifies a research gap and proposes research questions that address the gap.”* Identifying a research question helps the researcher to select a suitable strategy and methodology (Flick, 2009). Therefore, the structure of this chapter is as follows: section 4.2 is a brief discussion of the research paradigm; section 4.3 describes the sample data; section 4.4 illustrates data sources (financial data, corporate governance data, and ownership structure data) and the process of evaluating corporate governance. Moreover, section 4.5 discusses diagnostic test and preparation of the data, and general regression and control variables; section 4.6 outlines question one methodology that used in chapter 5. Additionally, section 4.7 details the question two methodology which was adopted in chapter 6; section 4.8 describes the question three methodology which was applied in chapter 7 and finally, section 4.9 provides a summary of the chapter.

4.2 Research Paradigm

Guba & Lincoln (1982) define paradigm as the basic belief system that guides the investigator. Paradigm is an important consideration when conducting research as it provides a framework to inform and guide an inquiry (Guba & Lincoln, 1982). Guba & Lincoln (1982) propose that there are four paradigms, namely: positivism, post-positivism, critical theory and related ideological positions and constructivism. They also claim that choosing a proper paradigm should help the

researcher to select a valid ontology, epistemology, and methodology to analyse their data. Therefore, an appropriate paradigm helps the inquirer to answer the ontological question, the epistemological question, and the methodological question as follows:

- The ontological question focuses on “what is the nature of reality and what is there that can be known about it?”
- The epistemological question concentrates on “what is the nature of the relationship between the knower and what can be known?”
- The methodological question focuses on “how can the inquirer go about finding out whatever he or she believes can be known?”

Different paradigms base on different philosophies, which influences the assumption of ontology, epistemology, and methodology. The table below 4.2.1 briefly shows the differences among paradigms.

Table 4.2.1. Differences among Paradigms³¹				
	Positivism	Post-positivism	Critical theory	Constructivism
Ontology	Naïve Realism	Critical realism	Historical realism	Realism
Epistemology	Objectivist	Objectivist	Subjective	Subjective
Methodology	Experimental	Modified experimental	Dialogic	Hermeneutical

In addition,, Burrell & Morgan (1979) propose four assumptions about the nature of social sciences, which help the investigator to understand social science. These assumptions are ontology, epistemology, human nature, and methodology. These assumptions can be characterised based on two dimensions: subjective and objective. They also argue that different ontologies, epistemologies, and human nature lead to different research methodologies. Research philosophical assumptions drive the choice of research methodology. In social science research, objective methodologists look at the social world as the natural world, hard, real and external to the individual. On the other hand, subjective methodologists treat the social world as softer, personal, and more subjective. The table below 4.2.2 displays the difference between ontology,

³¹ Source: Guba & Lincoln, (1982).

epistemology, human nature and methodology under the umbrella of a subjective-objective dimension.

Table 4.2.2. The Subjective-Objective Dimension³²

	Subjective	Objective
Ontology	Nominalism	Realism
Epistemology	Anti-positivism	Positivism
Human nature	Voluntarism	Determinism
Methodology	Ideographic	Nomothetic

Deductive or inductive reasoning can guide the research design. The deductive inquiry base on studying the literature, developing hypotheses and testing them through empirical observation. The inductive inquiry base on developing a theory based on empirical observation (Collis & Hussey 2003). The adoption of a particular paradigm influences the research method used to analyse the data. There are two broad research methods: qualitative and quantitative, used by researchers. The quantitative is closer to positivism and objectivism while qualitative methodology is closer to a constructivist approach in epistemological stance (Monk & Raphael, 2001). The quantitative method uses statistical methods for the analysis of collected, objective data, whereas the qualitative method focuses on an iterative process of examining and reflecting to get an understanding of the social phenomena under study. In other words, a qualitative methodology focuses on inductive reasoning whereas a quantitative methodology focuses on positivism and the deductive approach. Each of these methods has its limitations. Criticisms of qualitative methods exist regarding the potential for bias, lack of rigor and subjectivity. The quantitative approach receives criticism for failing to give an in-depth explanation of why a phenomenon under study happens. According to Sarantakos (1994), the quantitative methodology is based on the positivist philosophy. Bryman & Bell (2007) explain that the deductive approach links to quantitative research, which “*follows objectivism, ontological realism, and epistemological positivism.*”

There are two main sources of data in scientific research: primary data and secondary data. The primary data is original data gathered by the researcher such as questionnaires and observations. Secondary data is data that already exists such as data obtained from annual reports, books and other material (Veal, 2005). The thesis uses data from simple surveys and secondary data.

³² Source: Guba & Lincoln, (1982).

Again, paradigm helps the selection of “what is to be studied, how the research is conducted, what data are collected and how it should be interpreted” (Guba & Lincoln, 1982). The natural science method used to generate explanations of a social world is rooted in the tradition of positivism. The positivist paradigm is the dominant approach in accounting literature (Deegan & Unerman, 2011). The positivist paradigm views researchers as independent from the research under study (Ticehurst & Veal 2000). According to Guba & Lincoln (1982), a positivist approach is based on the belief that reality exists (ontology) and the investigated object assumed independent, and the investigator can study it without being influenced (epistemology). The investigator develops research questions followed by hypotheses to test them empirically and verify them. The process of a positivist approach is to identify theories, review the relevant literature related to a topic of interest, and to generate hypotheses, possible for testing. (Bryman, 2004). The paradigm of positivism considered as “scientific, empiricist, quantitative or deductive.” The positive approach includes three additional criteria to ensure the integrity of the research. These are validity, reliability, and generalisability.

The objective of this thesis is to investigate the association between CG, EQ, firm performance and firm value. The hypotheses rely on a simple survey and secondary data to establish a relationship among variables to do so. Thus, the dissertation adopts a positivist paradigm utilising deductive reasoning and quantitative methodology. Therefore, the study located itself in board and ownership structure characteristics related research, which is deductive in nature and builds models to emphasize the casual relationship based on existing theoretical notion. The use of deductive reasoning is appropriate because the hypotheses formed a priori and then the data tests these hypotheses. The nature of research questions and hypotheses, dictate that the quantitative method is the most appropriate method to establish the relationships between structural characteristics board role, firms EQ, firm performance and firm value following the majority of literature (Goh & Gupta, 2016; Ozkan, 2011; Core et al., 1999; Beasley et al, 1997; Fidrmuc & Xia, 2017). Finally, as mentioned earlier, the positivist approach helps to explain the cause and effect in social phenomena and is therefore appropriate for the dissertation (Hussey & Hussey, 1997).

4.3. Sample Data

The population comprises all publicly listed companies in the five GCC stock markets excluding Kuwait. The investigation of companies listed in Kuwait was impossible due to lack of access to data. Kuwait has issued a CG code only recently in 2014 for its listed companies; therefore, most companies do not disclose CG report publicly. The five GCC stock markets are Saudi Stock Exchange “*Tadawul*,” Bahrain Bourse, Qatar Stock Exchange, Muscat Securities Market, Dubai Financial Market, and Abu Dhabi Securities Exchange³³. In the sample, banks, insurance, and financial service companies are excluded as they are subject to different regulations than other entities. For instance, Saudi Arabia³⁴, Qatar³⁵, and UAE³⁶ have different corporate governance codes for banks and financial institutions (SAMA, 2012, UAE central bank, 2009; Qatar central bank, 2008). These codes have different characteristics regarding a financial statement, profitability measurement, liquidity assessment (Bekiris et al., 2011; Peasnell et al., 2005; Klein, 2002) and capital structure (Lim et al., 2007). In other words, the accrual characteristics of the financial industry are different from other industries (Wang & Xin, 2011). The study excludes listed foreign companies³⁷ since there is a possibility that other jurisdictions influence them, or they are subject to different or additional requirements such as financial reporting, CG, and disclosure requirements (Haniffa & Cook, 2002). Suspended and closed firms listed in the stock markets were not included either nor were firms without the necessary data.

Sample size covers the fiscal year 2009 to 2013. The rationale for selecting the period 2009-2013 is two-fold: the availability of data and the recovery of equity market relatively from the global financial crisis (Amico, 2014; Dalwai et al., 2015). The balance of panel data is not required; therefore, there are a different number of firms each year, and the strategy of estimation adopted is to use all available observations to avoid sample selection issues. Thus, the sample data includes all listed firms (large, medium and small firms), unlike most previous studies that tend to focus on either large or small firms (Wintoki et al., 2012). Consistent with Larcker &

³³ In the survey, the researcher is not able to get a sufficient number of companies that can represent non-financial companies in Kuwait. To be specific, out of 266 companies, the researcher only get five surveys back, which represents 1.8% of total non-financial companies in Kuwait. This is not sufficient or reasonable to reflect the effect of CG on EQ, firm performance and firm value.

³⁴ In 2012, Saudi Arabia Monetary Agency (SAMA) developed (principles of corporate governance for banks operating in Saudi Arabia).

³⁵ The Central Bank of Qatar published in 2008, “Corporate Governance Guidelines for Banks and Financial institutions.” <http://www.qcb.gov.qa/English/Legislation/Instructions/Pages/Governance.aspx>

³⁶ In 2009, the Central Bank of UAE issued corporate governance code called “Corporate Governance Guidelines” for UAE bank. http://www.centralbank.ae/en/index.php?option=com_content&view=article&id=122&Itemid=82

³⁷ For instance, in UAE, the corporate governance code is not applicable to foreign companies by law (Oxford business group, accessed 2015, <http://www.oxfordbusinessgroup.com/analysis/best-practices-strengthening-regulations-corporate-governance>).

Richarson (2004), Niu (2006), Cohen, et al., (2008)³⁸, each industry is required to have at least eight observations to be included in final data and take part in the analysis. As oil and gas, healthcare and technology do not meet the requirements to be defined as an industry, they are merged with another industry with similar characteristics such as healthcare with customer goods as an industry. When the sample of firms is small, the sample will provide insufficient estimation (Sirinidhi & Gul, 2007; France et al., 2005; Fama & French, 1997).

Different final sample sizes used based on the requirement of the model within each methodology to answer each research question accurately. Tables 4.3.1 to 4.3.9 show the breakdown of the dataset for each research question.

1-Research question one is what is the effect of internal corporate governance on earnings quality in five GCC countries. The final sample consists of 243 firms (1,215 firm-year observations) for the fiscal year 2009-13. Table 4.3.1 summarises the sample selection process.

Table 4.3.1. Descriptive of Data Deletion of CG and EQ

Descriptive	GCC countries						Total
	Abu Dhabi	Dubai	Bahrain	Oman	Qatar	Saudi Arabia	
All companies listed in the markets	66	60	42	115	44	175	502
Less bank, insurance, and financial companies	(35)	(34)	(23)	(35)	(18)	(66)	(211)
Less non-financial companies with missing CG and financial data	(3)	(8)	(8)	(10)	(6)	(8)	(43)
The final sample of non-financial companies with financial data	28	16	11	67	20	101	243

Table 4.3.2. Industry Category of CG and EQ

Industry category	Number of company	Percentage
Basic Material	126	10.37
Industrial	392	32.26
Consumer Goods	240	19.75
Consumer services	350	28.81

³⁸ Defond & Jambalvo (1994), recommended to drop any industries with less than 7 observations for discretionary accruals computations.

Telecommunications	50	4.12
Utilities	57	4.69
Total	1,215	100

Table 4.3.2 represents the distribution of samples across different industries in the GCC stock markets. There are six industries (basic material, industrial, consumer goods, consumer services, telecommunications, and utilities) based on Industrial Classification Benchmark (ICB). Based on the sample size, listed companies in GCC stock markets concentrate on some industries, namely industrial (32.05 percent), consumer services (28.81 percent), consumer goods (19.80 percent), and basic materials (11.01 percent). Table 4.3.3 shows the distribution of samples across different industries and years.

Table 4.3.3. Industry Category and Year Distribution of CG And EQ

Industry category	2009	2010	2011	2012	2013	Total
Basic Material	23	23	25	27	28	126
Industrial	71	78	79	83	81	392
Consumer Goods	45	47	48	50	50	240
Consumer services	63	68	50	73	74	350
Telecommunications	8	8	12	11	12	50
Utilities	11	11	11	12	12	57
Total	215	233	249	258	260	1,215

2- Research question two asks what the effect is of internal corporate governance on a firm's performance and firm value in five GCC countries. The final sample consists of 220 firms (1,096 firm-year observations) for the fiscal year 2009 to 2013. Table summarises the sample selection process.

Table 4.3.5 Industry Category Of CG , Firm Performance and Firm value

Industry category	Number of company	Percentage
Basic Material	119	10.86
Industrial	351	32.03
Consumer Goods	218	19.89
Consumer services	362	33.03
Utilities	46	4.2
Total	1,096	100

Table 4.3.5 represents the distribution of sample across different industries in GCC stock markets. Similar to the table (4.3.2) for research question one, listed companies in GCC stock markets concentrate on industrial (32.03%), consumer services (33.03%), consumer goods (19.89%), and basic materials (10.86%). Table 4.3.6 shows the distribution of sample across different industries and years.

Table 4.3.6. Industry Category and Year Distribution of CG, Firm Performance, and Firm Value

Industry category	2009	2010	2011	2012	2013	Total
Basic Material	21	23	19	28	28	119
Industrial	68	76	47	81	79	351
Consumer Goods	43	49	26	50	50	218
Consumer services	66	73	56	85	82	362
Utilities	10	10	14	11	11	46
Total	208	231	152	255	250	1,096

3- Research question three asks what the effect of the attendance of royal family members at a board meeting has on a firm's performance in Saudi Arabia. The final sample consists of 99 firms (491 firm-year observations) for the fiscal year 2009-13. Table 4.3.7 summarises the sample selection process.

Table 4.3.7. Descriptive of Data Selection of Royal Family Members, Firm Performance, and Firm Value

Descriptive	Saudi Arabia
All companies listed in the markets	175
Less bank, insurance, and financial companies	(66)
Less non-financial companies with missing CG and financial data	10
The final sample of non-financial companies with financial data	
	99

Table 4.3.8. Industry Category of Royal Family Members, Firm Performance and Firm Value

Industry category	Number of company	Percentage
Basic Material	93	18.94
Industrial	140	28.51
Consumer Goods	80	16.29
Consumer services	153	36.75
Total	491	100

Table 4.3.811 represents the distribution of sample across different industries in Saudi Arabia stock markets. For research question three, listed companies in Saudi Arabia stock market concentrate on Industrials (28.51%), Basic Materials (18.94%), Consumer Services (36.75%), and Consumer Goods (16.29%).

Table 4.3.9. Industry Category and Year Distribution of Royal Family Members, Firm Performance and Firm Value

Industry category	2009	2010	2011	2012	2013	Total
Basic Material	17	19	19	19	19	93
Industrial	24	26	28	31	31	140
Consumer Goods	14	16	16	17	17	80
Consumer services	28	30	31	32	32	153
Total	87	95	100	105	104	491

Table 4.3.9 shows the distribution of sample across different industries and years.

4.4 Data Sources and Collection

4.4.1 Variables Selection

This study examines a model containing CG or firm performance and firm value indicator as predicted variables and selected corporate governance indicators as predictor variables to address the relationship between these variables. The selection of variables is based on existing literature.

In other words, the choice of variables is based on consensus in the CG literature that the role of CG principles and mechanisms influencing firm EQ, firm performance, and firm value. This study contains three research questions, and each question has its own models specifications.

4.4.1 Financial Data

Five years of secondary data taken from Thomson Reuters Datastream. The study uses Datastream to convert all financial data to U.S. dollar, using the historical exchange rate at the closing date to deal with five different currencies for research questions (Campa & Donnelly, 2014). The rationale for selecting the U.S. dollar is that all five countries link their currencies to the U.S. dollar to maintain their economies and keep inflation low. In other words, most GCC currencies connect to US dollar, which allows them to enjoy capital mobility and has limited their monetary policy independence (Held & Ulrichsen, 2013). In addition, converting these currencies to the US dollar, this thesis will achieve a fairer comparison among the five GCC members.

4.4.2.A. Corporate Governance Data

The attributes of CG used to evaluate the strength of the CG practice in the region. To enhance data quality and reliability, CG data, which include board of directors characteristic and structure, as well as ownership structure, by hand from firms' CG and annual reports. As has been mentioned in sample selection, the rationale for selecting the period is the availability of data; however, there is limited data. Therefore, significant attention to maximize the sample size occurs. To supplement the data collection, missing data through a simple survey³⁹ distributed to companies from May to August takes place. Appendix A contains the content of the survey (Table 1).

Furthermore, two procedures of analysis used to evaluate CG practice in GCC firms. The GCC countries are treated as a single population to have a collective understanding of CG in the region. The rationale for doing this is that these countries share common characteristics such as

³⁹ Before distributing the survey to the entire population, a pilot study was conducted on ten companies to improve the quality of the survey. The request was that respondents be CEO's, board members or someone familiar with CG in the company. The process of survey, distribution had three stages: firstly, a survey was sent via email with a time frame of two weeks for responses. Secondly, if responses were not received, it was followed up with a phone call. Finally, if the company did not have email or did not respond to email or phone call, this researcher went to the company physically, except for Kuwait. This exception was because the potential for getting required information was low as stock market authorities refused to cooperate regarding data collection and the survey. 30 August 2014 was the date for the deadline for data collection.

economic, linguistic, cultural, religious, political and legal background. Some empirical studies have investigated GCC as a single population; for instance, AL-Muharrami et al., (2006), Al-Muharrami & Matthews (2009), and AL- Musalli & Ismail (2012). Additionally, Brickley & Zimmerman (2010) claim that distinguishing a group with similar problems of agency and corporate structures helps to create meaningful outcomes. Then, the evaluation of the quality of CG practice in all GCC countries against the international best practice of CG following Bekiris et al., (2011). Following Bekiris et al., (2011), the study uses the UK CG code. The rationale for choosing UK combined code is considered best practice and the most imitated influential code around the world (Bekiris et al., 2011). In addition, the UK CG code developed to fit the unitary nature of the board of directors, which is similar to the nature of the board in GCC countries. The CG code is more general than other codes regarding board size and board meetings, given the different nature of operating companies listed in the stock where the codes in GCC countries specify the board meetings and the board size such as SA and Bahrain. Moreover, this code follows the general principle of international CG introduced by the OECD. The codes of CG in GCC countries are based on the OECD principles of CG and resembling the international best practice codes (Shehata, 2015). In addition, Shehata (2015) compare CG codes among GCC countries based on UK CG code. Most of the company's laws in GCC countries (e.g., Bahrain, Oman, and Qatar) derive from British companies law (Khedr & Alnuaimi, 2010⁴⁰). The company law is an essential component that affects the notion of CG in GCC countries.

However, there are differences the researcher is aware of such as Bahrain has a lower power distance⁴¹ than other GCC countries. People in Oman and Bahrain known to be bigger risk takers than the other countries. In addition to that, Saudi Arabia and Bahrain are masculine⁴² whereas the rest of the GCC countries are feminine⁴³ (At-twaijri & Al-Muhaiza, 1996). Furthermore, from the discussion of the individual country in institutional setting section, some differences are highlighted 1- UAE, Oman, and Bahrain are much more open than Saudi Arabia. 2- UAE is more liberal than Bahrain (Held & Ulrichsen, 2013). 3- UAE and Bahrain depend on less on oil and are more liberal than SA and Qatar (Arouri & Fouquau, 2009). 4- The development and activities of

⁴⁰ In 19 century, Britain used to have dominant power in the region. With the exception of Saudi Arabia, UAE, Bahrain, Oman, and Qatar were colonies of UK; therefore, it is not surprising to see that the principles of common law influence the company law in these countries. However, the jurisdiction in GCC countries is a civil law, which is rooted to Egyptian- Napoleonic Codes of France (http://www.nyulawglobal.org/globalex/United_Arab_Emirates.html).

⁴¹ Power distance measure how the society accepts unequal distribution of power in institutions (Hofstede, 1983).

⁴² Masculinity measure how some values such as success and money dominate the society (Hofstede, 1983).

⁴³ Femininity measure how some values such as caring for others and the quality of life dominant the society (Hofstede, 1983).

Bahraini stock market are the lowest among GCC countries. 5- There is a strong correlation between the performance of Qatari stock market and its oil price. 6- Oman has one of the top regulations and transparency in the stock market (Henry & Springborg, 2010). 7- Dubai is considered the most globalised city among those in GCC countries, but it lacks transparency and accountability (Held & Ulrichsen, 2013). All of these small differences would influence the corporate governance's implementation and practice of each country. Therefore, to achieve deeper understating of CG in each country, in the second procedure of analysis, the CG practice against the CG code recommended in each of these countries is evaluated. This evaluation would enable a better comparison of the influence of CG codes on EQ, firm performance and firm value in each of these countries. It is worth to know that UAE has three stock exchange markets: Dubai financial market (DFM), Abu Dhabi securities exchange (ADX) and Dubai international financial exchange (DIFX), also known as NASDAQ Dubai. Use their names here are regulated by securities and commodities authorities (SCA) under federal law 2000 (SCA, 2012). However, Dubai financial securities authorities governs DIFX or NASDAQ Dubai (NASDAQ Dubai, 2013). Therefore, this thesis is considering DFM and ADX because federal law monitors them. To further the understanding of CG implementation in UAE, DFM and ADX have been analysed as one stock market representing UAE and separately or individually. The rationale behind this is that firstly different royal families rule each of the Emirates (such as Abu Dhabi⁴⁴ and Dubai), but both are a semi-autonomous member of the UAE. Even though SCA governs both stock markets, a different government owns each stock market. For instance, the government of Dubai holds the majority of the shares in DFM, where Abu Dhabi government wholly owns ADX (WSJ, 2014). Therefore, the ownership of the stock market would influence the running of the stock market. Moreover, the value of trading volume in DFM is double that in ADX, which may also affect stock market's performance and listed companies' performance. The conclusion is that the differences between two stock markets exist as SCA announced recently that there is a probability of combining these two stock markets (WSJ, 2014).

⁴⁴ Abu Dhabi play a leading role in UAE as it is the capital of UAE and has the most oil and gas reserves, land and citizen compared to the other six emirates (Held & Ulrichsen, 2013).

Table 4.4.2.A Corporate Governance Variables		
Variable	Name of Variable	Description of variable
IND	Independent directors	The ratio of independent directors to the total directors ⁴⁵ .
BSIZE	Board size	The total number of directors on the board.
CEOD	CEO duality	A dummy variable that takes the value of one if the CEO also serves as chairman of the board and zero otherwise.
MEET	The frequency of meetings (annual)	The number of board meetings per year.
AUDITSIZE	Audit committee size	The total number of directors on the audit committee.
AUDITIND	Independence of audit committee members	The ratio of independent director to the total directors in the audit committee
AUDITM	Audit Committee meetings	The number of meetings per year by the audit committee.
AUDITEX	The Expertise of audit committee members	The ratio of the member with financial or accounting expertise in audit committee to the total director in the audit committee
FEMALE	Female	The ratio of female representation on the board to the total board of directors.
RELATIVE	Relative	The ratio of a relative on the board to the total board of directors

4.4.2.B. Royal Family Members and Government Officials on the Board of Directors

Royal family members variable are present in research question model one and two but as the primary variable in research question model three. The appointment of royal family members on the board of directors is carried out in a different way, such as a nomination committee, seniority among a group of royalty, being one of the founding member, owning substantial equity and having controlling interest in a firm (Hertog, 2012; IFC & Hawkamah, 2008). Financial reporting

⁴⁵ independent directors are defined based on corporate governance code in GCC countries. In addition, the listed companies in the sample must state if their directors are independent or not based on the corporate governance code in GCC countries. The general definition of an independent director is “a non-executive member of the board who enjoys complete independence in his/her position and decisions. In addition, an independent director is independent and has experience and proficiency enabling him to support the decision-making process and company management” (code of corporate governance for listed companies in SA and similar definition published by other GCC countries). In the dataset, the researcher checks all independent directors on the board, which is published by the listed firm against the corporate governance code requirements of independent directors in each GCC country (refer to chapter 2 page 40 and 41 which listed the requirement of independent directors on the board). Unfortunately, not all criteria or requirements are disclosed by the company, such as if the independent directors have close family ties with any of the company’s advisers, directors or senior employees.

in GCC countries depends on both the company law of the country and royal decrees (Al-Shammari et al., 2008). Furthermore, presidential order or specific statutes create some of these companies, so the royal members have a unique benefit and interest including appointing royal family members or government officials on the board of directors. Therefore, the appointment of royal family members on the board of directors is through political or family connection (Hertog, 2008).

The researcher manually collects data on royal family attributes., there are different levels of royalty; for instance, the first generation of the royal family is more powerful than the second or third generation. Thus, it is worth considering this variation in influencing the decision-making. However, due to limited data, the general variable royal used as a rough measure or indicator of a royal family member in question, one and two, which is the most powerful member of the board of directors. In question three, the researcher examines the royal family member at a deeper level considering the close relation to the current Saudi King (royal highness). For instance, sons of the Saudi King or close relatives (royal highness) may have much greater influence on the firm, than more distant royal family. Hence, instead of treating the royal family as one unit, in question three, the researcher brings these differences to the study due to the data availability. In monarchy countries, it is easy to distinguish royal family members by their names. It is part of GCC countries culture and a sign of respect to call them Sheikh, Emir or Prince. In addition, the annual reports disclosed full family names and trials affiliation of the directors (Al-Hadi et al., 2016).

According to Halawi & Davidson (2008), 3 % of seats held by Nahyan royal family in Abu Dhabi, 4.2% by Khalifa royal family in Bahrain, 0.2 % by Maktoum royal family in Dubai, 1% by Bu'saidi royal family in Oman, 17.5% by Thani royal family in Qatar, and 4.2% by Al Saud royal family in Saudi Arabia. However, this study represents approximately 582 listed and non-listed companies and financial and non-financial firms for the year 2007. Therefore, this study fails to be precise regarding the royal family member on board since the sample size is quite small to represent all GCC countries. Al-ghamdi (2012) in his thesis introduced the royal family member variable and examined it with earnings management (EM) ⁴⁶for the first time in Saudi Arabia. He also suggests that the impact of a royal family member on a board's decision-making process remains the same regardless of the number of royal family members on the board. Alghamdi (2012) measures royal family members on the board of directors as a dummy variable that takes one if the board of directors includes at least one royal family member or powerful and

⁴⁶ Earnings management (EM) is a proxy for earnings quality.

rich family member and zero otherwise⁴⁷. However, it is likely that “Individual power is fairly diluted, but family power is high” (Halawi & Davidson, 2008). This statement can be reflected in the measure of the number of royal family members on a board of directors. Therefore, the precise meaning of the statement is that increasing the number of seats held by the royal family might affect the decision-making process more than the individual royal family. Thus they may affect the quality of earnings, firm performance and firm value as well. Unlike Al-ghamdi (2012), in this thesis, the royal family members’ variable represents the percentage of royal family members on the board of directors, which is their ratio to the board of directors.

In addition, for research question three, this researcher is interested in examining meetings and royal family members on the board. Hence, both variables are merged and create a variable called the attendance of royal family members at board meetings, and the examination of the effect of this variable is beside other variables of the royal family and CG on firm performance and firm value. The primary variable in research question three is the attendance of royal family members at board meetings. The board of directors is more likely to have more than one royal family member presenting on the board. Thus, to be rational and logical, their attendance is measured through a weighted average of participation of royal family members at the board as follows: the involvement of royal family one + the attendance of royal family two divided by the total number of the board meetings and the number of directors on the board (board size). Following Vafea (1999), non-physical attendance at the board meeting is uncounted because it is difficult for them to have adequate monitoring. Additional royal family member’s variables have been considered such as their share and their status on the board to examine research question three. Independence of royal family is a dummy variable which takes a value of one if the royal family member on the board is independent directors and zero otherwise. The study also examines whether a close relationship between a royal family member on the board and the Saudi King (royal highness) matters and influences firm performance and firm value. Thus, the study investigates this issue by creating a variable called KING_DIRECT which is a dummy variable taking a value of one if the royal family member on the board is closely related to the current Saudi King and zero otherwise (Alghamdi, 2012).

Regarding government officials on the board of directors, the study follows prior studies conducted by Firth et al., (2011) and Fan et al., (2007) in China. The government official

⁴⁷ He did not account purely for royal family on the board as he considered rich family members with them.

members are distinguished by either their representation of government share or job affiliation with the government in annual reports or a recognised name in the government; sometimes they are called Sheikh as a sign of respect. The first two are part of the stock market authority requirements for the company to disclose annual reports to the users.

Table 4.4.2.B. Variables Definition: Royal Family Members and Government Officials Variables		
Variable	Name of Variable	Description of variable
ROYAL	Number of royal family members	The ratio of royal family members on the board to the total directors.
	Royal family members attendance	The weighted average of the attendance of royal family members at the board meetings= the attendance of royal family one + the attendance of royal family two divided by the number of the board meetings and a number of the directors on the board (board size).
MEETR		
INDR	Independence of Royal family members	Dummy variable takes a value one if a royal family member on the board is independent director and zero otherwise.
GOV	Government officials	The ratio of government officials' members on the board to the total board of directors.
KING_DIRECT	A close relation to the current Saudi King	Dummy variable takes a value of one if the royal family member on the board is closely related to current Saudi King and zero otherwise.

4.4.2. C. Ownerships Structure Data

This study concentrates mainly on family-owned companies (FOC), state-owned companies (SOC) and institutional ownership (INSTAT) as a standard feature in the GCC countries. Section (3.2.3), in the literature review, provides a comprehensive discussion of different definitions of these ownership structures and the motivation of choosing operational definitions of these ownership structures. Briefly, the operational definitions of family ownership, state ownership, and institutional ownership outlined below.

1- Family Owned companies (FOC)

A family-owned company (FOC) used as a dummy variable which takes a value of one when family members hold at least 20 percent of direct shares and serve on the board or in management, and zero otherwise; following Claessens et al., (2000); La Porta et al., (1999); Miller et al., (2007), Saito, (2008), Jaggi et al., (2009) as the most used definition in literature. However, this study does not include indirect ownership or cross-sectional control of family

members because it is difficult to obtain this information reliably and accurately in the case of GCC countries. Therefore, this study argues that when families own at least 20 percent of shares and serve on the board or in management, this can significantly influence decision-making and active monitoring of management.

2- State Owned Companies (SOC)

A state-owned company (SOC) defined as a dummy variable that takes the value of one when the State holds more than 30 percent of the shares and zero otherwise (Prowse, 1992; Wang & Judge, 2011).

3-Institutional Ownership (INSTAT)

Institutional owned companies (INSTAT) are defined as a dummy variable which takes the value of one when the 5 percent or more of shares held by institutional investors (such as banks, financial service companies, insurance companies, mutual fund companies and pension fund companies) and zero otherwise (Celike & Isaksson, 2013; Dian, 2014; Namazi & Kermani, 2013; Barako et al., (2006).

Table 4.4.2.C Variables Definition: Ownership Variables		
Symbol	Variable	Name of variable
FMAC-DUMMY	Family ownership	A dummy variable that takes the value of one if a family own at least 20% of shares and a family member serves on the board or inmanagement and zero otherwise.
STATC-DUMMY	State ownership	A dummy variable that takes the value of one if at least 30% of shares are owned by agovernment and zero otherwise.
INSTATC-DUMMY	Institutional ownership	A dummy variable that takes the value of one if institutional investors own 5% of the shares and zero otherwise
OWN	Concentration of ownership	The percentage of shares held by shareholders owning at least 5% of the ordinary share capital

To study the association between different kind of ownership variables, and to give a more accurate picture of the effect of ownership structure on EQ, firm performance, and firm value, the study investigates the ownership structure in three ways as follows to take a closer look at ownership variables:

1- The study examines the three ownership structures as three separate variables namely family ownership, state ownership, and institutional ownership is based on the study operational definition of ownership structure. Following prior studies Claessens et al., 2000; Elghuweel 2015; Bartov et al., 2001

2- The study examines the curvilinear (non-linear relation or U-Shaped relationship) effect of family ownership, state ownership and institutional ownership (Morck, Shleifer, & Vishny, 1988) on EQ, firm performance and firm value. Following prior studies Keasey et al., (1994); Agrawal & Knoeber, (1996); Steiner,(1996); Bohren & Odegaard, (2001); Fernandez & Gomez, (2002); Connell & Servaes ,(1990), this study is using individual variable of ownership structure and their square terms (ex, FAMC= the percentage of family shareholding in firm_i and FAMC_i² = the squared percentage of family shareholdings in firm_i

3- The study examines the concentration of ownership without emphasizing any particular kind of ownership using the sum of ownership concentration. In other words, the research focuses on direct ownership (Fama & Jensen,1983; Sanchez & Meca, 2005).

4. 5 Measurement Models

This section describes the empirical setting. It begins with a general discussion about diagnostic tests, regression model, and control variables. The study uses STATA a quantitative data-analysis software to conduct all the model analysis

4. 5.1 Diagnostic Tests

First, descriptive statistics were carried out to understand the characteristics of data and then a correlation matrix was carried out to find out the relationship between the two paired variables. The testing of econometric assumptions is mandatory before diving into the regression analysis when researcher plans to use multiple regression to test the hypothesis. Thus, this thesis conducted some diagnostic examinations to check the assumptions before the main analyses the models. These assumptions are normality, heteroskedasticity, and multi-collinearity. The multiple regression (Pool OLS) is appropriate to conduct for the data analyses once these assumptions are

met. Besides that this thesis performs other statistical procedures to solve any problems associated to achieve these assumptions.

First, normality, which refers to examine whether or not residual normal distributed. If there is a sufficiently large deviation from normal distribution all resulting statistical test are invalid (Hair et al., 2006). The thesis tests the departure of normality using Shapiro-Wilk W test to check the normality assumption. The results are that the residual deviate from a normal distribution. Table 4.5.1.A presents the results of Shapiro-Wilk W test for three regression models. However, several econometric techniques aid employed to improve the linear fit of a model, which potentially enhances the normality of residuals. To correct for non-normality of residuals, the transforming of variables can include achieving normal distribution. Hence, the thesis deals with non-normal distribution of data by applying a transformation of the natural log⁴⁸ of numbers of variables such as growth, leverage and firm size besides others in the specific models of three research questions. Additionally, through plotting the data, the graph shows some extreme values (outliers). To deal with this issue and to avoid the reduction of sample size, the method of winsorization (5%) employed to deal with outliers in the study. Homoscedasticity is also important to check because the variance of the dependent variable should not dominate in only a limited range of the explanatory value. Thus, the thesis also tested heteroskedasticity, which may lead to the non-normality of financial data (Brooks, 2007). Breusch-Pagan/ Cook–Weisberg test for heteroscedasticity used to detect the problem. If heteroscedasticity exists in the model, the robust standard error correcting for heteroscedasticity computed. The result of Breusch-Pagan/ Cook–Weisberg test was significant (Table 4.5.1.A), and robust standard error should be used to control for heteroscedasticity. Concerning multicollinearity, it examines the extent to which both dependent and each independent variable in the study are related. The current thesis conducts a correlation matrix among all variables for the three research questions to check the relation among explanatory variables. Tables in chapters 5, 6, and 7 illustrates there is no severe multicollinearity among variables. Further, multicollinearity tests using Variance Inflation Factor (VIF) factors. The results from table reveal that there are no multicollinearity problems in the current study as the VIF values far from 10 (Gujarati, 2003). After checking and correcting some

⁴⁸ In order to mitigate non-normalities data transformation of the data (natural log) has been used to achieve normal distribution. However, any remaining non- normality would not be a major problem causing a serious violation of the OLS assumptions. Books (2007) indicate that the violation of the normality assumption is virtually inconsequential if the sample size is sufficiently large. As the current thesis has 1,215 observations for Q1; 1,096 observations for Q2; 491 observations for Q3 firm-year observations; this thesis can consider the error term as asymptotically distributed. Thus, the researcher can consider error as systematically normal.

of the econometric assumptions, conducting pool OLS regression is possible for analyses of the model.

However, due to advantages of panel data regression, it was preferred and used. It has time series and cross-sectional observations, more degrees of freedom and less collinearity among variables (Wooldridge 2002; Gujarati 2003). Panel data, variables should be tested for unit root or stationary by using the Fisher type unit root test⁴⁹ to accept or reject the null hypothesis that the variable has a unit root. Appendix B shows the results of Fisher unit root tests. Different statistics suggest different conclusions; however, the study relies on the inverse normal Z statistic, which offers the best trade-off between size and power Chio (2001). Based on the results in paper one (CG and EQ), only in the cases of STATC, INSTITC, and CEOD, the study fails to reject the null hypothesis that all panels contain unit roots, and conclude that except these three variables, the rest are stationary. CEOD is a dummy variable and ignores non-stationary, but in the case of STATC and INSTITC, the study needs to use them in the model in the form of the first differences. For paper two (CG and firm performance and firm value) the results of this test suggest that the null hypothesis are accepted at least at the 1 percent level of significance as all variables have no unit root except institutional ownership, board size, royal, government officials, and audit size. This thesis corrects non-stationary variables by taking the differences between these variables. For the third paper (attendance of royal family members at board meetings and firm performance and firm value), the thesis considers the differences of royal and board size variables based on the result of Fisher type unit root test. Autocorrelation also called serial correlation refers to the correlation of time series with its past and future value. In Panel data set, the serial correlation is likely to have a more substantial influence on the estimated covariance matrix of the least square estimator than heteroscedasticity. Woodridge test has been used to test for serial correlation.. Table 4.5.1.A presents the results of this test. The results indicate the presence of serial correlation as both the F statistics and Chi-square reject the null hypothesis of no serial relationship at the 1% level of significance. To control for autocorrelation issues, the study re-estimate the initial model with autocorrelation robust standard errors. There are two regression models under panel data; fixed effects and random effects model. Each model has its own assumption concerning the error term. The study utilises the Hausman (1978) test in this thesis to choose between the two approaches (fixed effect and random effect estimation). The Hausman specification test conducts the correlation between the x variables and the individual random outcome. If no association is evident, then random effects model is preferred, but if the

⁴⁹ The stationary test conducted for all variables in each model.

relationship exists, fixed effects should be applied (McKnight & Weir, 2009, Park, 2005). The result of this test decides which method fixed effect or random effect would best suit the research model. In this study, the results of the Hausman test in table 4. 5.1.B is insignificant $\text{Prob} > \chi^2$ ⁵⁰ and higher than 5 percent which shows that the assumption of the random effect estimation with the robust standard error should be considered to investigate the relationship between CG, EQ, firm performance, and firm value. In other words, Hausman test suggested that the random effect is more suitable, and appropriate for the data. After checking and correcting of some of the econometric assumptions, this indicates that multiple regression (pool OLS) and panel data regression are appropriate statistical estimation to conduct the study's analyses. Moreover, Breusch & Pagan (1980) lagrange multiplier test is used to decide between pooled regression and alternative fixed and random effects respectively if the null hypothesis is rejected at 5% significant level the study should use panel data regression either fixed or random effect. In all cases, the null hypothesis rejected at 5% significant level. Hence, the study uses a panel data approach. However, endogeneity in CG research cannot be ignored. The section below refers to endogeneity problem in detail and how GMM⁵¹ help to reduce the problem of endogeneity.

4. 5.1.A. Diagnostic Tests

Q	Normality ofresidual	Heteroscedasticity	Autocorrelation	Variance Inflation Factor (VIF)
Q1	Prob>z=0.00	Prob> χ^2 = 0.00	Prob>F= 0.08	Mean =1.18
Q2 ⁵²	Prob>z=0.00	Prob> χ^2 = 0.00	Prob>F= 0.06	Mean =1.33
Q3	Prob>z=0.00	Prob> χ^2 = 0.00	Prob>F= 0.00	Mean =1.46

4. 5.1. B Hausman Test

Q1: CG and EQ	Prob> χ^2 =0.38	Random effect
Q2: CG, Firm Performance And Firm Value	Prob> χ^2 =0.10	Random effect
Q3: Attendance of Royal Family Members at Board Meetings, Firm Performance, and Firm Value	Prob> χ^2 =0.45	Random effect

⁵⁰Probability greater than Chi-square.

⁵¹ Generalised Method of Moments (GMM).

⁵² All these diagnostic tests have been conducted for all dependent variables of question two and the results is similar that the data has problem with normality, Heteroskedasticity, and Autocorrelation, etc.

4. 5.2 Endogeneity

There are two sources of endogeneity problem 1) unobservable heterogeneity, which stems from the unobservable factor that influences both the dependent and independent variables 2) simultaneity, which stems if the independent variables are a function of the dependent variables or expected values of the dependent variables. most of the empirical researchers ignore the problem, which affects the relationship inference. In addition, many studies in an area of CG, EQ, firm performance and firm value are not accounting for endogeneity problem. Harris & Raviv (2008) among others provide evidence that the board of directors' structure and ownership structure are not exogenous and are not a determinant of performance; instead, both are a function of other variables. Wintoki et al., (2012) also claim that the relationship among observable characteristics of firms is dynamic which is the source of endogeneity. Wintoki et al., (2012) and Naguyen et al., (2014) provide evidence that the adequate empirical model to examine the effect of CG structure on firm performance, and firm value is a dynamic model where past performance is considered as an explanatory variable.

It is important to test CG variables in the model using different techniques: residuals versus xplots, and the Hausman test to check the endogeneity of regressors. The graph in Appendix C display residuals versus xplots: this plot shows whether there is a relationship between residuals and regressor. The study identifies a path in the graph indicating that there is a correlation, whilst the regressor is not exogenous and there are endogeneity issues. Hausman specification⁵³ test (Hausman Wu test) is used to test for endogeneity to decide between OLS and GMM. Under the null hypothesis of the Hausman test, there is no endogeneity, and the Ordinary Least Square (OLS) estimates are consistent (Gujarati, 2003), but if the test is rejected the null hypothesis (P-value<0.05); the GMM estimators should be preferable to OLS estimator. Based on the results in the table 4.5.1.C test the study rejects the null hypothesis and accept there is an endogeneity problem and it is better off using the GMM approach. The use of GMM allows the researcher to control the effect of endogeneity problem that identified in the literature. In other words, Pool OLS regression, and panel data tradition cannot be utilised as it would lead to a biased outcome. Therefore, the study should employ a GMM dynamic panel as advanced econometric techniques

⁵³ The specification test proposed by Hausman (1978) is the most accepted procedure to select the proper regression technique in cases when the researcher is not sure about the test to use (Baltagi, 2005).

that provide unbiased estimates. The use of GMM regression in CG studies is recommended in addressing the statistical problem (Wintoki et al., 2012; Nguyen et al., 2014)

Following Wintoki et al., (2012) and Nguyen et al., (2014), the study examines how many numbers of lags of dependent variables it needs for the dynamic regression model. the study employs a pool OLS regression of current earnings quality and performance on two lags of past EQ or performance. Similar to Nguyen et al., (2014), the coefficient of two lags of previous EQ or performance is not statistically significant, the study uses one year lagged by Wintoki et al., (2012) among others. Following Wintoki et al., (2012) and Nguyen et al., (2014), the study considers that country dummies, industry dummies, and year dummies are exogenous variables. Importantly, the primary analysis of the three questions based on GMM regression results⁵⁴. Finally, the study conducts several robustness checks to see if the main findings remain unchanged using different measurements and estimations. Sections 4.6.3, 4.7.4 and section 4.8.1 explain the detailed discussion of robustness tests for each research question.

4.5.1.C Endogeneity test

Research question	Hausman Wu test
Q1: CG and QE	Prob>Chi2=0.033
Q2: CG, firm performance and firm value	Prob>Chi2=0.011
Q3: attendance of royal family members at board meetings, firm performance, and firm value	Prob>Chi2=0.000

4. 5.3 Univariate Analysis

To check the importance of royal family members on EQ, and firm performance⁵⁵. The study conducted the paired of the two test variables to compare the differences in the means between two groups. The t-test checks if the mean of these differences is equal to zero which indicates the association between a royal family member on the board, earnings quality, and firm performance. The univariate testing starting point to check the relationship between two variables. However, conducting regression analysis would give a clear picture of the effect of royal family members on the board on firm EQ, firm performance and firm value.

⁵⁴ For each question, the GMM results reported in the analysis chapters deal with statistical issues and OLS regression results and panel data regression results reported in the Appendix to avoid confusing the readers of different outcomes and conclusions. However, in the analysis chapters the researcher wrote briefly about the OLS and panel data regression results .

⁵⁵ The study was not able to run the t-test between Tobin's Q (firm value measure) and royal family members on the board or attendance of royal family members at the board meetings because of limit variation of royal family members on the board, attendance of royal family members at the board meetings and Tobin's Q.

4.5.4 Parsimonious Model

The study examines the effect of CG on EQ, firm performance, and firm value in five GCC countries as a single population and individual country as well. The study avoids the rigidity of the models being tested and makes sure that each research question has parsimonious models to be tested across the three research questions when conducting the model for the whole population and individually. Importantly, an econometric model should be robust, rigorous and parsimonious. Parsimonious model means that the model is one with the least assumption and variables but with greatest explanatory power. Measures of model parsimony take into account goodness of fit the data and model complexity. If two models have the same number of the parameter the one with the better goodness of fit will be the more parsimonious. If two models have the same goodness fit (an event which rarely happens) (Greene, 2003) the model with fewer parameters will be the more parsimonious. In general, more parsimonious models should give better predictions. The study employs the Akaike Information Criterion (AIC) and Bayesian information criterion (BIC) to evaluate the models (Guja-rati, 2003) and comparing the goodness of fits for these models. These techniques help to choose better model specification. The lower value of the AIC and BIC implies a better-specified model (Greene, 2003) or the better the result. On the other words, AIC and BIC estimate the quality of each model relative to each of the other models. Thus, AIC and BIC provide a means for model selection. The results of these tests reported in the appendix.

Moreover, the study has applied the step-wise regression method to remove the variables having an insignificant⁵⁶ effect on the dependent variable: beta coefficient. Thereby, the study reports parsimonious models, which include only the relevant variables that significantly affect the beta coefficient. The results of these tests reported in the appendix. Thus, conducting these procedures, the researcher believes that these models provide a rigorous and parsimonious framework for studying the effect of CG on EQ, firm performance and firm value in five GCC countries.

4. 5.5 Regression Models

⁵⁶ Not all non-significant variables should be dropped because important variables should always be in the multiple linear regression models, even if they are not significant, otherwise we will have omitted variables bias. The only case we can omit important variables and have unbiased estimation is when is when the omitted variables are not correlated with included ones (Greene, 2011).

reg (pooled OLS with the robust standard error), *xtreg* (panel data with random effect and the robust standard error) and *xtbound* (GMM) command were used in STATA to ensure the validity of the statistical results. These commands were valid for balanced and unbalanced panels. However, the thesis reported GMM regression results in analysis chapters as the primary results of three research questions. GMM! is better than other methods since it is robust concerning heteroskedasticity, serial (auto) correlation, sample gaps in unbalanced panels non-normality and measurement error and allows us to control of the problems of endogeneity by using instruments.

The General Regression Model

$$Y = \alpha + \beta_1 \Sigma CG \text{ variables} + \beta_2 \Sigma \text{ control variables} + \varepsilon_{it}(1)$$

In equation (1), while the coefficient β signal if the relationship is positive (negative) between Y, ownership structure, CG variables and control variables, P-value represent if the relation statically significant (insignificant) between these variables. Therefore, if the relationship is statically significant positive (negative), the null hypothesis is rejected, and the relation is significantly positive (negative) between the variable and EQ, firm performance and firm value. However, if the relationship is statically insignificant positive (negative), the variable suggests the acceptance of the null hypothesis.

4.5.6 Control Variables

Although the core objective of the research is to investigate the effect of CG structure on EQ, firm performance and firm value, there are other factors, which can influence EQ, firm performance and firm value and various characteristics of CG, and they should be controlled. These controlled variables were used to avoid some limitation inherent in each of these models. Therefore, if they are left uncontrolled, the result may not be reliable or valid (Kothari et al., 2005; Dechow et al., 1995). According to Archambeault, (2002), there are other variables such as management style, integrity, and corporate culture, which should be controlled due to their influence in EQ, firm performance and firm value; however, they are difficult to measure⁵⁷. There are general control variables used in three research questions such as growth, leverage, firm size and big4. Big4 represents as control proxy for external governance mechanism. Other control variables: country dummy, industry dummy⁵⁸, and year dummy.

⁵⁷ It is hard to obtain these data in public domain and most of studies Muna (2011), Yurdakul & Ozturkcan , (2014), Al-shabbani (2015), OECD, 2015 used survey and questionnaires to measure these variables, which consume a lot of times and out of the scope of the study. In addition, the majority of CG studies not control these variables as they hard to obtain in public domine data information especially in emerging markets like GCC countries.

⁵⁸ The industry dummy is defined based on the first digit of the SIC code. According to Pedersen & Thomsen (1997; 1998) industry effect has a significant influence due to the inter industries accounting differences.

Table 4.5.6.Control Variables - Variables Definition		
Symbol	Variable	Name of variable
GROWTH	Firm growth	The annual change in net sales divided by total assets
LEVERAGE	Leverage	Total liabilities divided by total assets
LN_SIZE	Firm size	Natural logarithm of total assets.
BIG-4	Big -4 audit firm	A dummy variable takes a value of one if the company audited by one of the BIG-4 and zero otherwise.

4.6. Measurement of Earnings Quality for Question One (CG &EQ)

Regarding the evaluation of EQ, many approaches employed in the literature to measure EQ; yet there is no unique model. Dechow et al., (2010) published an insightful, comprehensive and informative paper about EQ and different measurements used in the literature. Dechow et al. (2010) summarised more than 300 documents about EQ and classified three ways to measure EQ: properties of earnings, investors' responsiveness to earnings and external indicators of earnings misstatements. Under each category, there are some proxies. This study focuses on the effect of internal control which includes the board of director's composition and ownership structure over financial reporting and most of the studies have the same focus and interest and use properties of earnings proxies such as accrual quality and persistence. Therefore, the study ignores the last two categories and focuses on the first category. The difference between these EQ proxies is that each proxy focuses on different attributes of earnings, which in the end influence decision usefulness. Also, it is good to choose a better model to allow for comparable results across countries and to differentiate and understand if the change occurs because of the institutional setting and the firms' differences or if the change occurs because of the employment of different proxies. Therefore, besides choosing the most effective method in literature to measure EQ to meet the focus of the research question, the availability of information about an emerging market influences the choosing methodology.

As mentioned earlier, there is no universal definition of EQ, and it depends on the context under study. The study defines Earnings Quality (EQ) already as follows: faithful representation of financial performance for the current period, which enables financial report users to develop reasonable expectations of future performance (Wahlen et al., 2012). This definition indicates that

high EQ is free from opportunistic EM, which allows investors to make accurate decisions. Also, it is observed that EM is the dominant aspect investigated in the literature and firms largely practice EM (Graham et al., 2005). Additionally, Meek & Thomas (2004) recommend more investigation of EM worldwide to discover if EM is just an American phenomenon or is also present elsewhere. Thus, this research question attempts to measure EQ through opportunistic EM, and so the vast majority of studies have looked at and employed discretionary accruals as a proxy for EQ (Dechow et al., 2010; Dechow et al., 1995; Guary et al., 1996). Even though abnormal accrual models have received a lot of criticism and suffered from limitations, it is still considered the most accepted measure as a proxy for EQ. Furthermore, these models go through some developments and improvements, which are considered to be healthy for developing a more rigorous proxy of EQ (Defond, 2010; Dechow et al., 1995; Dechow et al., 2010).

Larcker & Richard (2004) state that accrual accounting is more flexible than cash accounting, thus leading to the finding that the cash flow components of earnings are more credible and reliable than the accrual component of revenues. Moreover, accrual accounting alleviates the problem of mismatching by using cash flows as a short-term performance measure. Furthermore, accrual accounting has better ability to reflect the present performance of the firm and its ability to predict and generate future cash flows for the next period than cash flow. However, due to the flexibility of accrual accounting, which allows judgment and estimations, managers may use accrual accounting to hide or delay some crucial information about the firm's performance which influences decision usefulness and also leads to lower EQ (Dechow et al., 1995). Therefore, a model is required to detect the discretionary components within the earnings (Dechow et al., 1995).

Abnormal Working Capital Accrual (AWCA) Based on Defond And Park Model (2002):

Following prior studies by Carey & Simnett, (2006), Francis & Wang, (2008), Maijor & Vanstraelen (2006), Defond & Park (2001); and Orebcipe & Bar –Yosef, (2011) which were conducted in Europe and other international settings, this study employed the Defond & Park (2001) model, which estimates the abnormal (discretionary) working capital accrual model (AWCA). According to Defond & Park (2001), Ashbaugh et al., (2003), and Becker et al., (1998); managers have the greatest discretion over working capital accruals. Additionally, Defond & Jambalvo (1994) and Teoh et al., (1998) claim that working capital is more sensitive and is easier to manipulate than nonworking capital. The rationale for selecting this model is that this model estimates only the firm-specific accounting information rather than the average

information per industry (Defond & Jambalvo, 1994). Furthermore, the Defond & Park (2001) model is more potent than total accrual in deducting EM. To avoid the problem mentioned above and since this research question is focusing on a small emerging stock market with a compared to USA (Defond & Park, 2001; Francis et al., 2009), the Defond & Park (2001) model is considered the best to detect EM in this study.

AWCA is a proxy of EM, which calculates abnormal (unexpected) working capital accrual as the difference between the actual (realised) working capital accrual and the expected working capital accrual. In other words, this model covers both intentional and unintentional accrual estimation error by management. They see that the difference represents working capital accrual that is not likely to sustain into the future and predicts a reversal against future earnings. Calculations of AWCA is as follows:

$$AWCA_{t-1} = WC_t - \left(\frac{WC_{t-1}}{S_{t-1}} \right) * S_t$$

In the primary analysis, AWCA is considered in its absolute value. The purpose of this study is to investigate EM per se, rather than income-increasing and income-decreasing policies. This approach is preferred as there is no expectation of direction of EM (Warfield et al., 1995; Becker et al., 1998; Francis et al., 1999; Bartov et al., 2000; Prencipe & Bar-Yosef, 2011; Menon & Williams, 2004; Prawitt et al., 2009; Defond & Park, 1997).

Table 4.6. Variables Definition: CG and EQ - Defond and Park (AWCA)		
Symbol	Variable	Definition
$AWCA_{t-1}$	Abnormal working capital accrual	The absolute value of abnormal working capital accruals for firm i in year t calculated from equation (2)
WC_t	Current working capital	Non-cash working capital accrual at the end of year t computed as (current assets – cash and short-term investment) – (current liabilities – short-term debt) in year t.
WC_{t-1}	Previous working capital	Working capital at the end of year t-1
S_t	Current total annual sales	total annual sales at the end of year t
S_{t-1}	Previous total annual sales	Total annual sales at the end of year t-1

4.6.1 Control Variables

1- Growth

Firm growth is included as a control variable due to the likelihood of differences in the extent of information asymmetry at different points in the life cycle of the firms (re-writing) (Aljifri & Hussainey, 2007). Carcello et al., (2004) notes that management may have the incentive to manage earnings to meet the targeted rate of growth or to conceal downturns. Matsumoto (2002) states that management is more likely to alter the earnings figure in fast-growing firms. Moreover, growth influences working capital accrual, which influences EQ as well. Some studies Abdul arahman & Ali, (2006); Huang et al., (2008); Dimitropoulos & Asteriou, (2010) and Matsumoto (2002) document the positive association between firm growth and EM. The study expects the correlation between growth and AWCA because both have a significant change in sales component. There is an expectation that there exists a positive relationship between growth and EM. Finally, calculations of firm growth are shown by the annual change in net sales divided by total assets.

3- Leverage

Leverage reflects firm debt structure. In addition, many studies use leverage as control variable or as proxy of debt violation (Erickson et al., 2004; DeAngelo et al., 1994; Gul & Tsui, 2001; Agrawal & Knoeber, 1996; Jelinek, 2007; Jiang et al., 2008; Dimitropoulos & Asteriou, 2010). Leverage captures the risk which associates with high debt and which influences EQ as well (Elayan et al., 2008). Leverage has a positive association with EM as a way to avoid debt covenant violation (Efendi et al., 2007; Jiang et al., 2008; DeFond & Jiambalvo, 1994). On the other hand, a set of studies found a negative relationship between leverage and EM (Becker et al., 1998; Ismail & Weelman, 2008). A positive relationship is expected between leverage and EM. Leverage is measured and calculated as total liabilities divided by total assets.

4- Firm Size:

Jensen & Meckling (1976) argue that the larger the firms, the higher the agency cost due to the increase of opportunistically managerial discretions. Pincus & Rajgopal (2002) note that large firms put more pressure on managers to report more predictable earnings. As a result, managers have the incentive to alter the earnings figures, taking advantage of the complexity of the firm's

operations and the difficulty of understanding (Lobo & Zhou, 2006). Moreover, large firms are more likely to manage earnings downward (Bartov, 1993) to reduce political attention, such as government and unions (Watts & Zimmerman, 1990; Young, 1999; Gore et al., 2001). However, Lennox (1999), Gore et al. (2001), Klein (2002), Xie et al. (2003), and Abdul Rahman & Ali (2006) document a negative association between firm size and EM as the large firms care about their reputation and earn high profits and have more resources. Therefore, large firms avoid EM. Expectations are that there will be a negative association between firm size and EM. The firm size as a proxy for the complexity of operations. Firm size is the natural logarithm of total assets at the end of the year following (Jaggi et al., 2009; Machuga & Teitel, 2009; Dimitropoulos & Asteriou, 2010).

5- Big4

“Compliance with accounting standards in GCC countries is driven by auditor quality and thus this study controlled for auditor quality by including external Big4 audit firm (Alshammari et al., 2008).” There are two standpoints regarding the effect of the Big4 on a firm’s EQ. On the one hand, Francis & Krishnan (1999&2002) provide evidence that investors have more confidence in reported earnings audited by Big4 auditing firms. Argument of the necessity of the Big4 to improve financial reporting in the country with poor disclosure is mandatory (Hail, 2002). As expressed by Healy & Lys (1986), Lennox (1999) and Colbert & Murray (1999), the difference between Big4 auditing firms and those who are not part of the Big 4 is reputation, resources, specialisation, and expertise. As noted by Chen et al. (2001), Big 4 firms care about their international brand name and risk reputation (Francis et al., 1999; Kim et al., 2004; Wiwanya & Aim, 2008); hence, they are more likely to reduce EM compared to non-Big four firms. In weak investor protection environments, firms, which hire one of the Big 4 audit firms, have a better performance record (Rodriguez & Alegria, 2012; Choi et al., 2008; Choi & Wong, 2007; Niskanen et al., 2011). In addition, a substantial evidence from previous studies, Becker et al. (1998), Ashbaugh et al. (2003), DeFond & Jiambalvo, (1991&1994), Francis et al., (1999), Frankel et al. (2002), Gore et al. (2001), Van Tendeloo & Vanstraelen (2005, 2008), Lin & Hwang (2010), Charles et al. (2010), and Chen et al. (2005) conclude a positive effect of Big4 auditing firms in increasing EQ which leads to better firm performance due to their capabilities, to prevent EM.

Some academicians argue that it is not necessary for Big Four firms to provide better EQ and to decrease EM in emerging markets similar to developed markets due to the institutional setting

and legal and cultural environment (Francis & Wang 2008; Ball et al., 2000; Chen, 2005, Chen & Zhang, 2010; La Porta et al., 2000; Leuz et al., 2003). Big4 firms are more likely to be strict in detecting EM and in ensuring high quality of earnings in the country where the investor rewrite this sentence using investor protection etc. The opposite is true in countries with inadequate investor protection (Francis & Wang 2008). Similarly, using a sample of European countries namely the UK, France, and Germany: Maijoor & Vanstraelen (2006) stress that due to differences in auditing environments across the different countries, the quality of Big4 auditing differs as well. This study expected that there would be a negative association between Big4 and EM. Big4 is measured as a dummy variable takes a value of one if the company hires one of the big4 audit firms and zero otherwise.

4.6.2. Regression Models for Research Question One:

To measure the possible relation between EM (a proxy of EQ) and CG mechanisms or to test the stated hypotheses, the absolute value of abnormal working capital (AWCA) regress on individual CG attributes and different controlled variables using quantitative data-analysis software STATA was used.

***Model 1** aims to investigate the effect of CG on earnings quality using individual ownership variables beside individual CG variables:*

$$\begin{aligned} LN\ AWC = & \alpha + \beta_1\ FAMC\ DUMMY_{it} + \beta_2\ STATC\ DUMMY_{it} + \beta_3\ INSTITC\ DUMMY_{it} \\ & + \beta_4\ LN\ BSIZE_{it} + \beta_5\ IND_{it} + \beta_6\ CEOD_{it} + \beta_7\ ROYAL_{it} + \beta_8\ IND\ ROYAL_{it} \\ & + \beta_9\ AUDITEX_{it} + \beta_{10}\ CEOD\ GROWTH_{it} + \beta_{11}\ LN\ GROWTH_{it} \\ & + \beta_{12}\ LN\ LEVERAGE_{it} + \beta_{13}\ LN\ SIZE_{it} + \beta_{14}\ BIG4_{it} + COUNTRY\ DUMMY \\ & + INDUSTRY\ DUMM + YEAR\ DUMMY + \varepsilon_{it} \end{aligned}$$

***Model 2** the second model specification aim to investigate the curvilinear of ownership structure beside individual CG variables:*

$$\begin{aligned} LN\ AWC = & \alpha + \beta_1\ FAMC_{it} + \beta_2\ FAMC_{it}^2 + \beta_3\ STATC_{it} + \beta_4\ STATC_{it}^2 + \beta_5\ INSTITC_{it} \\ & + \beta_6\ INSTITC_{it}^2 + \beta_7\ LN\ BSIZE_{it} + \beta_8\ IND_{it} + \beta_9\ CEOD_{it} + \beta_{10}\ ROYAL_{it} \\ & + \beta_{11}\ IND\ ROYAL_{it} + \beta_{12}\ AUDITEX_{it} + \beta_{13}\ CEOD\ GROWTH_{it} \\ & + \beta_{14}\ LN\ GROWTH_{it} + \beta_{15}\ LN\ LEVERAGE_{it} + \beta_{16}\ LN\ SIZE_{it} + \beta_{17}\ BIG4_{it} \\ & + COUNTRY\ DUMMY + INDUSTRY\ DUMM + YEAR\ DUMMY + \varepsilon_{it} \end{aligned}$$

***Model 3** the third model specification aim to investigate the concentration of ownership structure beside individual CG variables:*

$$\begin{aligned} LN\ AWC = & \alpha + \beta_1\ OWN_{it} + \beta_2\ LN\ BSIZE_{it} + \beta_3\ IND_{it} + \beta_4\ CEOD_{it} + \beta_5\ ROYAL_{it} \\ & + \beta_6\ IND\ ROYAL_{it} + \beta_7\ AUDITEX_{it} + \beta_8\ CEOD\ GROWTH_{it} \\ & + \beta_9\ LN\ GROWTH_{it} + \beta_{10}\ LN\ LEVERAGE_{it} + \beta_{11}\ LN\ SIZE_{it} + \beta_{12}\ BIG4_{it} \\ & + COUNTRY\ DUMMY + INDUSTRY\ DUMM + YEAR\ DUMMY + \varepsilon_{it} \end{aligned}$$

Table 4.6.2. Variables Definition: CG and EQ

Symbol	Name of variable	Predicted sign ⁵⁹
Dependent variable		
Y	LN_AWCA- The natural logarithm of abnormal working capital accrual	
Independent variables of Model 1		
FMAC-DUMMY	Family ownership	+
STATC-DUMMY	State ownership	+
INSTITC DUMMY	Institutional ownership	-
CEOD	CEO Duality	+
IND	Independent directors on the board	-
ROYAL	Royal family members on the board	-
LN_BSIZE	The natural logarithm of Board size	-
IND_ROYAL	The interaction term between independent directors and royal family member on the board. Independent royal family member on the board	-
AUDITEX	The expertise of audit committee members	-
CEOD_GROWTH	The interaction term between CEO duality and firm growth	+
Independent ownership variables in Model 2		
FMAC	Percentage of Family ownership	
STATC	Percentage of State ownership	
INSTATC	Percentage of Institutional ownership	
FMAC ²	The square term of Family ownership	-
STATC ²	The square term of State ownership	-
INSTATC ²	The square term of Institutional ownership	-
Independent ownership variables in Model 3		
OWN	Ownership concentration	+
Control variables		
LN_GROWTH	The natural logarithm of Firm growth	+
LN_LEVERAGE	The natural logarithm of Leverage	+
LN_SIZE	The natural logarithm of the Firm size	-
BIG 4	Big 4 audit firms	-
COUNTRY	Country dummy	?
INDUSTRY	Industry dummy	?
YEAR	Year dummy	?

The prediction of coefficients of the primary model is that β_1 , and β_2 will have positive value where β_3 will have negative value. Expectations are that β_4 and β_5 have a negative influence on the EM and that β_6 will have a positive value where β_7 , β_8 , and β_9 will take a negative value. Regarding control variables, the sign of β_8 is expected to have a positive value while, β_{10} , β_{11} ,

⁵⁹ The expected sign based on the relation between individual CG or control variables and AWCA, which is a proxy of EQ. For instance, CEOD is expected to have a positive association with AWCA which means (lower EQ) and so on.

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β_{12} , will have a negative value. Additionally, predictions are that β_{13} , and β_{14} , will have negative value.

Model specification for The Individual Country⁶⁰

Because the main model is not applicable to be run for an individual country, the study has a country-specific model based on stepwise and AIC and AIB to get the parsimonious model to avoid the rigidity of the model testing:

4.6.3. Robustness Test

Abnormal Accrual Accounting (AAA) Based on Modified Jones Model (1995)

Modified Jones model (1995) is similar to the original Jones model (1991). However, under Jones model (1991), the revenue is assumed to be free from management discretion, considered as normal accrual. Dechow et al., (1995) who developed the modified Jones model, rejected this assumption and argued that it is easier for management to alter the recognition of revenues or credit sales than cash sales. Therefore, Dechow et al., (1995) considered two variables (income to adjust for the change in receivable and gross plant, property and equipment) to enhance the power of detecting EM. The managerial discretion is free from change in revenue less than a change in receivable (Dechow et al., 1995). Modified Jones model (1995) has received some criticisms. Mysocki (2004), Meuwissen et al. (2005) argue that the model is not applicable for emerging markets as in developed stock markets such as the USA and Europe due to the requirement of considerable observation per industry (time- series) or per country (Wysocji, 2004; Meuwissen et al., 2005; Maijoor & Vanstraelen, 2006; Defond & Jambalvo, 1994). For instance, McNichols (2000) and Jeter & Shivakumar, (1999) argue that time series of modified Jones model requires at least ten years of data (observation). The residuals have the lower predictive ability for future earnings than normal accrual. Subramanyam (1996) argues that modified Jones model (1995) suffers from misspecification of discretionary accrual. However, Bernard & Skinner (1996) believe that this problem is noticeable in most models. Dechow et al., (1995) examined the applicability of four models, namely Healy model (1985), Deangelo model (1986), Jones model (1991) and modified Jones model (1995) to detect EM. They concluded that modified Jones model (1995) is the most powerful model among them. They also indicated that while the Jones

⁶⁰ The specific model of a country reported in the appendix B.

model (1991) suffers from bias, the modified Jones model (1995) does not. In addition, some authors argue that the modified Jones model (1995) is the most powerful and robust in detecting EM and “provides reliable estimations” (Dechow et al., 1995; Guay et al., 1996; Masters-Stout et al., 2008; Wells, 2002; Barton, 200; Hansen, 1998). Despite the limitation of modified Jones model, it is the most commonly used in literature since it was introduced up to now. Jones model (1991), Dechow et al., (1995) all used the time series approach. Subramanyam, (1996), Bartov et al., (2001), Davidson et al., (2005), Gul et al., (2003), Barton (2001), Heninger (2001), Klein (2002), Xie et al. (2003), Peasnell et al. (2001), Teoh et al., (1998), (1998), and Kasznik, (1999) used the cross-sectional and panel approach instead, along with the modified Jones model and asserted that it was more potent in detecting EM than the original one. The advantage of using the panel data approach of modified Jones model (1995) is to increase the sample size and control for industry and year specific influence (Subramanyam 1996; Peasnell et al., 2000).

Following Dechow et al., (1995) model, the research first regresses total accruals on different variables expected to vary with normal accruals. Table (3.6.3.) defines all variables.

$$TA_{it} = \beta_0 + \beta_1 (\Delta AR_{it} - \Delta AR_{it}) + \beta_2 GPPE_{it} + \varepsilon_{it} \quad (1)$$

Second, the research estimates the coefficients from equation (1) and the study uses them to assess the normal accrual in a specific industry.

$$TA_{it} = \widehat{\beta}_0 + \widehat{\beta}_1 (\Delta AR_{it} - \Delta AR_{it}) + \widehat{\beta}_2 GPPE_{it} + \varepsilon_{it} \quad (2)$$

Third, the research estimates abnormal accruals by subtracting total accruals from normal accruals.

$$AAA_{it} = TA_{it} - NA_{it}$$

Table 4.6.3. Variables Definition: CG and EQ- Modified Jones Model (AAA)

Symbol	Variable	Definition
TA_{it}	The total accruals	Net income before extraordinary items – operating cash flow in year t scaled by average total assets using assets from the start and end of the fiscal year.
ΔREV_{it}	The change in revenues	The change in revenues for firm i in year t in comparison with previous year scaled by average total assets.

ΔAR_{it}	The change in account receivable	The change in account receivable for firm i in year t in comparison with previous year scaled by average total assets.
$GPPE_{it}$	The gross property, plant and equipment	The gross property, plant and equipment for firm i in year t scaled by average total assets.
ε_{it}	Error term	Error term for firm i in year t.
NA_{it}	The normal accruals	The normal accruals for firm i in year t calculated from equation (2)
AAA_{it}	The abnormal accruals accounting	The abnormal accruals for firm i in year t calculated from equation (3)

$$Y = \alpha + \beta_1 FAMC DUMMY_{it} + \beta_2 STATC DUMMY_{it} + \beta_3 INSTITC DUMMY_{it} + \beta_4 LN BSIZE_{it} + \beta_5 IND_{it} + \beta_6 CEOD_{it} + \beta_7 ROYAL_{it} + \beta_8 IND ROYAL_{it} + \beta_9 AUDITEX_{it} + \beta_{10} CEOD GROWTH_{it} + \beta_{11} LN GROWTH_{it} + \beta_{12} LN LEVERAGE_{it} + \beta_{13} LN SIZE_{it} + \beta_{14} BIG4_{it} + COUNTRY DUMMY + INDUSTRY DUMM + YEAR DUMMY + \varepsilon_{it}$$

Second Robustness Tests

A- A new variable named (corruption) has been included as an instrument to check the robustness of results. According to the literature, a country with high level of corruption, their firms are more likely to connect with politicians to gain economic benefits. In other words, a corrupt political environment increases the probability that firms' connected politicians are willing and able to extract rents from the public and competitors on behalf of their firms (Gray et al., 2014; Pan & Tian, 2017). The corruption variable is measured based on the corruption index from World Bank. This international index measures bribery directly from business enterprises trading and investing; the range of the index is between 0 to 100 where 0 refers to highly corrupted countries and 100 applies to those clean from corruption (World Bank, 2018⁶¹).

B- GCC countries characterized of weak protection of minority shareholders, thus controlling shareholders or CEO may abuse their position to gain private benefit. Therefore, it is interesting to examine the relationship between protection of minority shareholders on EQ, firm

⁶¹ World Bank (2018) link: <https://data.worldbank.org/indicator/IQ.CPA.TRAN.XQ>

performance and firm value. Scores of minority shareholder protection data obtain from minority shareholders protection index⁶² in World Bank.

C- To examine the influence of the year's effects, another new variable is used, called aPeriod. This variable is measured as follows: a dummy variable takes a value of one if the year is between 2009 -10 which represents the years of hardship right after the financial crisis and zero for the years 2011 to 2013, which represent the recovery years from the economic disaster. The study then adds an interaction item between the period and CEO variables to evaluate the effects of the variable (period) The study argues that the CEO behaves differently under these circumstances (Faleye, 2007; Gill & Mathur, 2011; Kim, 2013; Rutledge et al., 2016).

4.6.4 The Difference between Aggregate and Specific Accruals

There are general differences between total accrual models and specific accrual models. These differences might lead to different results and in the end, due to the influence of specific variables within the model or different models, may detect a different kind of EM. In other words, there are several motivations, incentives and techniques of EM-based on either stock market incentives or regulatory concern (Healy & Wallen, 1999). Prior researchers such as McNichlor (2000) and Dechow & Jiamblavo (1996) recommend that to gain fruitful results and aggregate accrual is subject to controversy and not much insight is given (Marrqadt & Wjedman, 2004), which may not reflect the fundamental problem using specific accrual.

4.7 Measurement of Firm's Performance and Firm Value For Research Question Two and Three

Regarding the evolution of firm performance and firm value, there is no consensus within the literature (Haniffa & Hudaib 2006). Nevertheless, the majority of prior studies have relied on return on assets (ROA) and return on equity (ROE) which are an accounting-based measure and a measure of profitability (Baysinger & Butler 1985; Dehaene, De Vuyst & Ooghe 2001) and Tobin's Q which is market-based measure (Agrwal & Knoeber, 1996; Yermack, 1996; Beiner et

⁶² World Bank measures the strength of minority shareholders' protection to evaluate the ease of doing business around the world. The index of minority shareholders protection, which considers publicly listed companies while the board of directors manages a large number of shareholders, is based on two indices (conflict of interest and shareholder's right in CG).

al., 2006; Black et al., 2006; Henry, 2008). ROA shows performance based on historical information, which reflects previous firms' operation, where ROE reflects the efficiency of the firm using equity funds to generate profits (Epps & Cereola 2008; Leng 2004). Moreover, Tobin's Q shows performance based on firm value by the market evolution of the assets (Tobin, 1969), which in turn reflects current action (Kiel & Nicholson, 2003). In other words, Tobin's Q indicates the perception of the market concerning the firm's performance (Weir et al., 2002). It also refers to growth and investment opportunities (Boon et al., 2007; Link et al., 2008; Lehn et al., 2008). Tobin's Q accounts for risk and is less likely for manipulation of accounting measures (Al-Matari et al., 2014). Management and investors have different interests and ways to evaluate CG; therefore, management attempt to use ROA and ROE as the measurement to show how the wealth affects CG mechanisms. On the other hand, investors seem to prefer to value the firm structure of CG based on Tobin's Q and measurement (Black et al., 2006, Grab, 2007). Therefore, a higher ratio represents a higher return in each of these measurements.

Like any other proxies, these measurements have received either support or critique. Therefore, the spotlight is on their strengths and weaknesses as discussed in the literature below. The advantage of ROA and ROE is as follows: ROA is a measurement used to see "how efficiently and effectively a firm manages its" operation and uses its assets to generate profits while maximising and creating the value of shareholders' investment (Ross et al., 1998). ROE measures how well the management invests the fund provided by investors. In addition, Lev & Sunder (1979) assert that ROA is a proper measurement of firm performance because it decreases the problem of the size, which makes it easier to compare firms. ROA and ROE are better than market rates of return as it shows year-to-year fluctuation, which reflects the current business condition. However, market rates of return give an expectation of future development without revealing the current volatility in the business condition (Demsetz & Lehn 1985). ROE is a more sensitive measure of the ownership research. Chaganti & Damanpour (1991) find that ROA is insignificant and ROE is much more beneficial in their study of institutional investors. The ROE is thus a more effective method to measure the effect of equity ownership on performance (Chen, 2012)., leverage influences the ROE; therefore, higher leverage usually leads to higher ROE⁶³.

⁶³ When firm increases the amount of debt financing the firm increases the fixed interest expense. If firm have a really good year then the firm pay its fixed cost and the firm has more leftover for its shareholders. If the firm has a really bad year, the firm still has to pay its fixed costs and the firm gas less leftover for its stockholders. Thus, leverage can amplifies the variation in ROE (Ross, 2011).

Some studies of CG have used ROA and ROE as a measurement method (as the proxy of financial performance) (Gompers et al., 2003; Core et al., 2006; Haniffa & Hudaib, 2006; Cui et al., 2008). However, there are some problems with ROA and ROE, which lead to several criticisms. First, ROA and ROE are an accounting-based measure of profitability based on historical information, which means previous profit cannot reflect the future profit (Ross et al., 2002). Second, it cannot reflect current changes in the valuation of equity market (Krivogorsky, 2006). Third, it ignores the risk level in the calculation (Ross et al., 2002) meaning that it cannot be concluded that two companies having an identical profit are equal if the level of risk is different. Fourth, it is subject to managerial manipulation because of the change in accounting policies and methods (Alexander et al., 2007; Mangena & Taurangana, 2007). Tobin's Q is the measure used to reflect how management effectively manages assets to generate value for its shareholders and reflects the perception of a firm's financial performance by market (Haniffa & Hudaib, 2006). Chung & Pruitt (1994) asserts that Tobin's Q has great theoretical and practical relevance. It has been widely used in CG literature as the proxy for firm performance (Yermack, 1996; Agrawal & Knoeber, 1996; Gompers et al., 2003). Moreover, like ROA, Tobin's Q is also subject to managerial manipulation because it is a hybrid of accounting and capital market-based measure (Kapopoulos & Lazaretou, 2007). Unlike ROA, the criticism of Tobin Q is the construction of calculation and potential errors in the measurement (Chung & Pruitt, 1994). However, to eliminate the weakness of both measurements discussed above, some control variables are used in the model. The use of control variables is to minimise the limitation. ROA, ROE, and Tobin's Q are the most commonly employed measurements to evaluate firm performance and firm value, which allow for comparability of the result among the studies of CG, firm performance and firm value.

4.7.1 Control Variables

1- Growth

Firm growth is one of the determinant factor driving the firm performance and firm value (Ramezani et al., 2002; Rappaport, 1983). Furthermore, Koller et al., (2010) provide an evidence that the sales growth is the second important factor to increase shareholder value. Woo et al., (1992), Medelson (2000), Cox et al., (2002), Peng (2004) McKelvie & Wiklund (2010), and Dalton et al., (2010) find a positive association between a company's sale growth rate and the

firm profitability. Brush et al., (2000) and Cho & Pucik (2005) conclude a direct relationship between firm growth and firm value. However, agency theory expects that the sale growth is not necessary to have a positive effect on firm performance (Brush et al., 2000) arguing that managers may focus on increasing their wealth instead of shareholders. Additionally, some studies the negative effect of firm growth on firm performance (Markman & Gartner, 2002) due to some reasons such as firm complexity. Reid (1995) finds a negative relationship between sale growth and firm profitability. Smith et al., (2005) find a negative association between growth and firm value while Copeland & Dolgoff (2011) fail to find a relationship between firm growth and firm value. Expectations are that there exists a positive relationship between growth, firm performance and firm value. Finally, calculations of firm's growth are the annual change in net sales divided by total assets.

2. Leverage

Leverage is included as high leverage, which is related to high agency cost due to a conflict of interests between controlling shareholders and minority shareholders (Jensen & Meckling, 1979; Myers, 1977; Downen, 1995). All of these links to moral hazard problems, which means that leverage, can be negatively related to performance. For instance, firms with high leverage may be at risk of bankruptcy if they are unable to make payments on their external debt financing. Leverage has a negative association with profitability or financial performance (Rajan & Zingales, 1995; Bevan & Danbolt, 2002; McConnell & Servases, 1995; Short & Keasey, 1999; Hu & Izumida, 2008; Jackling & Juhl, 2009). Haniffa & Hudaib (2006) ,Jang & Park (2011) and Anderson et al., (2003) report a positive association between leverage and ROA. Even though the results in the literature are not consistent, the majority of findings in the literature follows on this occasion. An expected negative association exists between leverage, firm performance and firm value. Calculations of leverage are total liabilities divided by total assets.

3- Firm Size

Numerous research Vijayakumar & Tamizhselvan (2010), Lee (2009), Ozgulbas et al. (2006), Jonsson (2007), Amato & Burson (2007), Becker-Blease et al. (2010), Velnampy (2005), Velnampy (2006), Banchuenvijit (2012), and Velnampy & Nimalathan (2010) finds a positive relationship between firm size and performance because large firms can access resources at a lower cost (Velnampy, 2013) and this, in turn, may increase their performance (Velnampy, 2005; Amato & Burson, 2007). For instance, there is a positive correlation between firm size and better

CG structure (e.g., Jensen, 1986; Himmelberg et al., 1999; Beiner et al., 2006) and its consideration is vital. Empirically the relationship between firm size, performance and value differ when there is use of different measurements, namely ROA and Tobin's Q. Agrawal & Knoeber (1996), and Haniffa & Hudaib (2006) find a negative relationship between firm size and Tobin Q; where Haniffa & Hudaib (2006) report a positive relationship between ROA and firm size. According to Leng (2004), at least in theory, large firms are more profitable than smaller ones because they can obtain new technology as well as the better economies of scale and diversification. Weir et al., (2002), Durnev & Kim (2005) find a negative relationship between firm size and Tobin's Q. They argue that larger firms are more likely to have lower Tobin's Q due to a lower share of probabilities and investment opportunities compared to small firms (Antronczyk & Samann, 2014). Shepherd (1972), Becker-Blease et al. (2010), and Banchuenvijit (2012) find a negative relationship between firm size and firm performance. Lau & Tong (2008) and Mohd & Ghazali (2010) find an insignificant relationship between firm size and performance, and even though the results in the literature are not consistent, this occasion follows majority findings in the research. Therefore, expectations are that there exists a significant positive relationship between two variables. Firm size is calculated by taking the natural logarithm of total assets to controls for differences in firm size.

4-BIG-4

Based on agency theory there is a relationship between auditor type and firm performance ((Jensen & Meckling, 1976; Wallace, 1980; Fama & Jensen, 1983). Higher auditing quality firm is more likely to constrain EM, which reduces the agency cost that in turn increases firm value in the marketplace (Grayson, 1999). Francis, (2004); Francis et al., (1999); Becker et al., (1998) argue that large auditing firm can enhance firm performance. Thus, the selection of auditor has power and affects the firm value. However, there is limited research about the association between auditor type on firm performance and firm value. On the one hand, Aljifiri & Moustafa (2007) and Al-Hussaini & Al-Sultan, (2008) and Wang & Huang (2014) conclude that there is a positive and significant relationship between auditor type and firm performance. However, Kabir et al., (2010), Jeong & Rho (2004) and Alzharani (2012) fails to find a relationship between auditor type and financial firm performance and firm value arguing that the Big4 is not necessarily lead to better firm performance and firm value. The study expected a positive association between Big Four, firm performance and firm value. Big Four is measured as a

dummy variable takes a value of one if the company hires one of the Big Four audit firms and zero otherwise.

The investigation of the effect of CG on firm performance and firm value based on two models: the first model is based on the principal component analysis (PCA) while the second model is based on individual CG variables.

4.7.2 Principal Component Analysis (PCA) For Research Question Two

In research question two, it uses the three sets of internal CG mechanisms namely: ownership structure, the board of directors and audit committee. Due to a large number of variables and the nature of CG mechanisms (variables) especially the board of directors' composition, these variables correlated with each other. Not all 16 variables of CG can be included in one regression without facing the econometric problem, which leads to difficult interpretation and involvement of measurement error. The study does not use the CG index as suggested by Larcker et al., (2007). Larcker et al., (2007) argues that using CG index leads to many econometric problems. Therefore, to alleviate the measurement error and avoid multicollinearity, the principal component analysis (PCA) has been used which is a data reduction method to extract the relevant factor which is used in regression methodology to analyse the data. This method reduces the data set to a better size while continuing to hold on to the original information. PCA is identifying a parsimonious set of CG variables that affect firm performance and firm value. In the other words, including factor components of CG in the regression, helps to see the relationship between multiple measures of CG and the dependent variables. Larcker et al., (2007) argue that using principal component analysis helps to get an understanding of CG because there is little in the way of empirical analysis or theory for complicated CG.

The use of principal component analysis⁶⁴ (PCA command in STATA) is to reduce the number of variables that account for most of the variance in the observed variables. The PCA transforms some correlated variables into some uncorrelated variables. This method considers all variation before pinpointing small elements that contain unique variance or error variance. This technique removes the combination of variables firstly before continuing with combinations that account for lower levels of difference (Hair et al., 2010). It is necessary to have a high correlation among the variables to apply the PCA. The study employs the Kaiser-Meyer- Olkin (KMO) test, and the

⁶⁴ To obtain a more parsimonious set of variables, the study used PCA.

result is more significant than 0.5 in most variables (see table 3.7.2.A). It means that the use of PCA is valid and appropriate. PCA uses the eigenvalue method. Under this method, I keep all factors with an eigenvalue greater than unity. Seven factors are identified as indicators of 16 CG variables and these factors explain 62.7% of the total variance of the original data (see table 3.7.2.B). This percentage is close to the percentage of Dey (2008) paper and Larcker et al., (2007) paper. These factors with greater unity are important and kept for rotation (Jolliffe, 2002). The benefit of rotation is to help gain a better interpretation of the components and to maximise the dispersion of loadings within the factors. Rotation allows the retained factors to be correlated to enhance the PCA solution. There are two kinds of rotation: orthogonal rotation and oblique rotation. Following the Dey (2008) procedure, the orthogonal rotation is favorable. According to Dey (2008) using orthogonal rotation helps to avoid the complication of multicollinearity.

In the rotation, the factor loading is when the absolute value exceeds (0.3). Each factor reflects governance dimension. After obtaining seven factors, each factor is given a name based on the individual variables that load. The first factor includes independent directors on the board and independent directors on the audit committee and has been called INDEPENDENCE. The second factor includes family ownership and relatives on the board and labeled FAMILY. The third factor captures board size, board meetings, audit committee size and audit committee meetings and is referred to as BOARD. The fourth factor includes government ownership and government officials on the board and is called GOVERNMENT. Some factors were difficult to give a name to, especially factors 5, 6, and 7. Other researchers such as Larcker et al., (2007) mention the difficulties in assigning names to some factors. The fifth factor captures institutional ownership and audit committee expertise and is called EFFECTIVENESS because both expected to be effective active on monitoring. The sixth factor includes royal family on the board and Big 4 audit firms and is referred to as EXPERTISE while the seventh factor relates to females on the board and CEO duality and is called BOARD COMPOSITION.

The reliability of these components are measured using Cronbach's alpha similar to Dey (2008) paper, and Larcker et al., (2007) paper, the level of reliability is lower than the rule of thumb proposed by Nunnally (1976). However, the reliability level refers to a reasonable degree of reliability, which is consistent with the notion that the low level is normal in the early stages of measurement. This consistency suggests that using factors of CG are more reliable and valid than using a single indicator of CG from CG index (Larcker et al., 2007).

Table 4.7.2.A. Akaiser-Meyer-Olkin measure of sampling adequacy	
Variable	Kmo
FAMC	0.490
STATC	0.533
INSTITIC	0.408
BSIZE	0.473
FEMALE	0.598
RELATIVE	0.662
IND	0.534
CEOD	0.652
BMEET	0.615
ROYAL	0.540
GOV	0.713
AUDITSIZE	0.555
AUDITIND	0.532
AUDITMEET	0.531
AUDITEX	0.367
BIG4	0.498
overall	0.532

Table 4.7.2.B. Principal components analysis (PCA)				
compnent	Eigenvalue	Difference	Proportion	Cumulative
Comp1	2.021	0.576	0.126	0.126
Comp2	1.964	0.476	0.123	0.249
Comp3	1.488	0.188	0.093	0.342
Comp4	1.299	0.152	0.081	0.423
Comp5	1.147	0.048	0.072	0.495
Comp6	1.098	0.082	0.069	0.564
Comp7	1.017	0.046	0.064	0.627
Number of obs		1127		
Number of comp		7		
Trace		16		
Rho		0.627		

Table 4.7.2.C. Reliability statistic (Cronbach's Alpha)

Item	Obs	Sign	item-test correlation	item-rest correlation	average interitem correlation	alpha
f1	1096	-	0.4378	0.1146	0.0445	0.2185
f2	1096	-	0.4219	0.0963	0.0477	0.2311
f3	1096	+	0.4071	0.0796	0.0507	0.2425
f4	1096	+	0.5252	0.219	0.0271	0.1432
f5	1096	+	0.3886	0.059	0.0544	0.2564
f6	1096	+	0.4117	0.0848	0.0497	0.239
f7	1096	+	0.4005	0.0722	0.052	0.2476
Test scale					0.0466	0.2549

4.7.3 Regression

Firm performance and firm value are a dependent variable to the explanatory variables, which include individual internal CG factors and control variables. There are different models used to examine the effect of CG on firm performance and firm value; thus, the models below present the statistical models. Table (3.7.3 A and B) summarises the CG factor and control variables investigated in this question, which include the definition of each variable and shows how they were measured.

$$\begin{aligned}
 Y = \alpha + \beta_1 F_1(INDEPENDENC)_{it} + \beta_2 F_2(FAMILY_{it}) + \beta_3 F_3(BOARD_{it}) \\
 + \beta_4 F_4(GOVERNMENT_{it}) + \beta_5 F_5(EFFECTIVENESS_{it}) + \beta_6 F_6(EXPERTISE_{it}) \\
 + \beta_7 F_7(BOARD COMPOSITION_{it}) + \beta_8 LN GROWTH_{it} \\
 + \beta_9 LN LEVERAGE_{it} + \beta_{10} LN SIZE_{it} + COUNTRY DUMMY \\
 + INDUSTRY DUMM + YEAR DUMMY + \varepsilon_{it}
 \end{aligned}$$

Coefficients predict that β_1 will have positive value where β_2 will have negative value. Expected to is that β_3 has a positive influence on firm performance where β_4 has a negative association with firm performance. Predictions are that β_5 and β_6 will have a positive value where β_7 will take a negative value. Regarding control variables, predictions are that β_8 will also have a positive influence on firm performance while β_9 will have negative value. Finally, β_{10} will have a positive value.

Table 4.7.3.A Variables Definition of Model 1: CG, Firm Performance and Firm Value		
Symbol	Name of Variable	Predicted Sign
Dependent variable		
Firm performance	LN_ROA	The natural logarithm of Return on assets
	LN_ROE	The natural logarithm of Return on equity
Firm value	LN_TOBIN'S Q	The natural logarithm of Tobin's Q
Independent variable		
F1 (INDEPENDENCE)	IND	Independent directors on the board
	AUDITIND	Independence of audit committee member
F2 (FAMILY)	FAMC	Family ownership
	RELATIVE	Relatives on the board
F3 (BOARD)	BSIZE	Board size
	BMEET	Board meetings
	AUDITSIZE	Audit committee size
	AUDITMEET	Audit committee meetings
F4 (GOVERNMENT)	STATC	State ownership
	GOV	Government officials on the board
F5 (EFFECTIVENESS)	INSTITIC	Institutional ownership
	AUDITEX	Audit committee expertise
F6 (EXPERTISE)	ROYAL	Royal family member on the board
	BIG 4	Big 4 audit firms
F7(BOARD COMPOSITION)	FEMALE	Female directors on the board
	CEOD	CEO duality
Control variables		
LN_GROWTH	The natural logarithm of Firm growth	
LN_LEVERAGE	The natural logarithm of Leverage	
LN_SIZE	The natural logarithm of the Firm size	
BIG 4	Big 4 audit firms	
COUNTRY	Country dummy	?
INDUSTRY	Industry dummy	?
YEAR	Year dummy	?

The model 2 aims to investigate the effect of individual internal corporate governance on firm performance and firm value. Table (3.7.4) the summarised description of each variable used in the second model.

$$\begin{aligned}
 Y = & \alpha + \beta_1 FAMC DUMMY_{it} + \beta_2 STATC DUMMY_{it} + \beta_3 INSTITC DUMMY_{it} + \beta_4 CEOD_{it} \\
 & + \beta_5 IND_{it} + \beta_6 ROYAL_{it} + \beta_7 ROYAL BIG4_{it} + \beta_8 LN GROWTH_{it} \\
 & + \beta_9 LN LEVERAGE_{it} + \beta_{10} LN SIZE_{it} + \beta_{11} BIG4_{it} + COUNTRY DUMMY \\
 & + INDUSTRY DUMM + YEAR DUMMY + \varepsilon_{it}
 \end{aligned}$$

Coefficients predict that β_1 and β_2 will have negative value where β_3 will have a positive value. It is also expected that β_4 has a negative influence on firm performance and firm value where β_5 , β_6 , and β_7 has a positive association with firm performance. Regarding control variables, it is predicted that β_8 will also have a positive influence on firm performance while β_9 will have negative value. Finally, β_{10} will have a positive value.

Table 4.7.3.B Variables Definition of Model 2⁶⁵: CG, Firm Performance and Firm Value

Symbol	Name of Variable	Predicted Sign
Dependent variable		
Firm performance	LN_ROA	The natural logarithm of Return on assets
	LN_ROE	The natural logarithm of Return on equity
Firm value	LN_TOBIN'S Q	The natural logarithm of Tobin's Q
Independent variable for three models		
FAMC-DUMMY	Family ownership	+
STATC-DUMMY	State ownership	-
INSTATC-DUMMY	Institutional ownership	+
LN_BSIZE	The natural logarithm of board size	+
IND	Independent directors on the board	+
CEOD	CEO duality	-
ROYAL	Royal family members on the board	+
ROYAL_BIG 4	The interaction term between a royal family member on the board and Big4 audit firm	+
Control variables		
LN_GROWTH	The natural logarithm of Firm growth	+
LN_LEVERAGE	The natural logarithm of Leverage	-
LN_SIZE	The natural logarithm of the Firm size	+
BIG 4	Big 4 audit firms	+
COUNTRY	Country dummy	?
INDUSTRY	Industry dummy	?
YEAR	Year dummy	?

4.7.4 Robustness Test

The study employs the following robustness tests to check the model equations:

⁶⁵ The model specification for an individual country in Appendix C.

A- The study uses the different measurement of ROA and Tobin's Q (adjusted Tobin's Q and (adjusted ROA) to check the robustness of the results. The industry adjusted performance and value measure capture firm's performance and firm value for each sector and year. This adjustment was to avoid common impact on all shares of the stock market and to get specific firm's performance (Cordeiro et al., 2013). The calculation of adjusted ROA and adjusted Tobin's Q base on Kang & Kim's (2012) definition (see equation 1&2 below). Each industry is based on first digit code following ICB⁶⁶.

1- Industry adjusted ROA (Adj_ROA) = profit after tax divided by firm's total assets minus

the median ROA of all firm in the sample that belong to the same industry.

2- Industry adjusted Tobin's Q (Adj_TobinQ)= market value plus book value of debt divided by book value of total assets minus the median Tobin's Q of all firms in the sample that belong to the same industry.

B- second to check the robustness of the finding, the variables of corruption, protection of minority shareholders, and period that used in the robustness test in question one has been used again in question two to check their influence on firm performance and firm value

4.8. Royal Family Members and Firm Performance for Research Question Three

In previous section 3.7.1, extensively discusses the measurement of firm performance and firm value and control variables as considered in both research question two and three. Therefore, in this section 3.8, it utilises the regression model employed and robustness test to investigate the research question three as highlighted.

4.8.1 Regression model for research question three:

In the models, firm performance and firm values are a dependent variable, and the explanatory variables are royal family variables, individual internal CG attribute, and control variables. Table (4.7.3) below summarises the royal family members, CG, and variables examined in this study.

***Model 1** aims to investigate the relationship between attendance of royal family, firm performance and firm value:*

⁶⁶ INCBIN- Industrial Classification Benchmark- Industry Name.

$$\begin{aligned}
Y_{it} = & \alpha + \beta_1 LN\ MEETR_{it} + \beta_2 INDR_{it} + \beta_3 ROYAL_{it} + \beta_4 LN\ BSIZE_{it} + \beta_5 LN\ LEVERAGE_{it} \\
& + \beta_6 LN\ GROWTH_{it} + \beta_7 LN\ SIZE_{it} + \beta_8 LN\ BIG\ 4_{it} \\
& + \beta_9 LN\ MEETR\ LEVERAGE_{it} + \varepsilon_{it}
\end{aligned}$$

Model 2 aims to investigate the influence of king related royal family member on the result:

$$Y_{it} = \alpha + \beta_1 LN MEETR_{it} + \beta_2 INDR_{it} + \beta_3 ROYAL_{it} + \beta_4 LN BSIZE_{it} + \beta_5 N LEVERAGE_{it} \\ + \beta_6 LN GROWTH_{it} + \beta_7 LN SIZE_{it} + \beta_8 LN BIG 4_{it} \\ + \beta_9 LN MEETR LEVERAGE_{it} + \beta_{10} KING DIRECT_{it} \\ + \beta_{11} INDR KING DIRECT_{it} + \varepsilon_{it}$$

Regarding model two, another related issue that needs examination in the light of the result of the current study is the argument of more power held by royal family members with close relation to current Saudi King (royal highness). Thus, to explore the issue of the royal family further, a new variable (KING_DIRECT) and interaction terms between king direct and independent royal family (KING_DIRECT_INDR) are included in the main model. Coefficients predict that β_1 , β_2 , β_3 , and β_4 will have a positive influence on firm performance where β_5 will have negative value. The study expects that β_6 has a positive impact on firm performance. Regarding control variables, predictions are that β_7 will also have a negative impact on firm performance whereas β_8 will have a positive value.

Table 4.7.4. Variables definition of Royal Family Members, CG, and Firm Performance and Firm Value

Symbol	Variable	Name of variable	Predicted sign
Dependent variables			
Firm performance	LN_ROA	The natural logarithm of Return on assets	
	LN_ROE	The natural logarithm of Return on equity	
Firm value	LN_TOBIN'S Q	The natural logarithm of Tobin's Q	
Independent variables			
LN_MEETR		The natural logarithm of Attendance of royal family members at board meeting	+
INDR		Independent of royal family members	+
Royal		Royal family members	+
LN_BSIZE		The natural logarithm of Board size	+
KING_DIRECT		Royal family members on the board closely related to the current Saudi King	+
INDR_KING_DIRECT		The interaction term between independent royal family members and closely related royal family member on the board to current Saudi King	+
MEETR_LEVERAGE		The interaction term between attendance of royal family members and firm leverage	+
Control variables			
LN_LEVERAGE		The natural logarithm of Leverage	-
LN_GROWTH		The natural logarithm of Growth	+
LN_SIZE		The natural logarithm of Firm size	+
BIG-4		BIG-4 audit firms	+
INDUSTRY		Industry dummy	?
YEAR		Year dummy	?

4.8.2. Robustness Test for Research Question Three

The study employs the following robustness tests to check the model equations:

A) The focus of question three is that can a higher number of attendances of royal family members at board meetings improve the performance and value of the company? Their presence measures their diligence, and the higher diligence will increase firm performance and firm value (Carcello et al., 2002; Sarkar & Sarkar, 2005). Additionally, some scholars argue that the attendance of board member is considered as a proxy measure of supervisory board quality. However, one may say that the vast number of board meetings and participation generally result in little or no meaningful action when they are fundamentally cosmetic (Baldwin et al., 2003, Lorsch & MacIver, 1998). Thus, determining the efficacy of royal monitoring through just attendance may not be sufficient. Therefore, there is a need for further investigation of royal contribution through their participation. The result might help to find if the MEETR could bring resources to the firm (recourse providing role of royal family members). Thus, the study constructs two interactive terms:

1) Politically connected directors can help the firm to access resources such as external debt financing. According to Shi et al., (2018) it is difficult to measure the direct resources brought by independent directors into a firm. However, following Shi et al., (2018) the study uses leverage as a proxy of firm's demand for debt financing. The study includes the leverage and the interaction between MEETR and LEVERAGE in regression to determine if investor value the attendance of royal family members at board meetings (MEETR) when a firm demands for debt financing or leverage as its resources.

2) Ye & Li, (2017) argue that if independent politically connected director involves in the firm diligently, they are more likely to attend more board meeting. Therefore, they play a more critical role in monitoring and consulting in the firm. Thus, the study introduced MEETR_INDR interactive term between attendance of royal family members at board meetings and independent royal family members to investigate their contribution. If the independent royal family director has a positive effect through more attendance at board meetings, the firm performance, and firm value increases. The study then re-runs the main model including these interaction terms and check the result.

B) Pressure or incentive might drive the myopic behavior of management; thus additional tests have been conducted to control any potential problems and to check the robustness of the results. Members of the board of director can also influence the investment decision process (Ghosh et al., 2007). Thus, firms with higher corporate value may have more investment opportunities and therefore, more investment (Cho, 1998). Hoshi et al., (1991) and Kaplan & Zingales (1995) provide evidence that investment is related to Tobin's Q. Also, Fazzar et al. (1988) found that Tobin's Q affects capital expenditures. Therefore, to check the robustness of the findings, capital expenditure is used as a measurement. Moreover, Haniffa & Hudaib (2006) include capital expenditure as control variables in their analysis, which represent growth. Ghosh et al., (2007) consider capital expenditures as one of discretionary investment; hence, a manager influences it. Capital expenditure which is the amount invested in fixed assets is a proxy for growth. Lang et al., (1989) and Smith and Watts (1992) found a significant association between performance and capital structure as the latter signals long-term growth potential. Some prior studies documented that politically connected member help firm in investment decision and increasing the capital for investment activities (Claessens et al., 2008, Aivazian, 2005). However, some politically connected firm may engage in unprofitable project favoring government or social projects, which turns to invest inefficiently (Chen et al., 2011). Bauer et al., (2007) examine the association between CG and capital expenditures using the emerging markets in Europe. They find that investor sensitive CG has a negative effect on capital expenditure; meaning European companies increasingly focus on short-term shareholder value, aligned to the practice of Anglo-American. The control variables in this model are Tobin's Q (to capture growth opportunities), cash flow to sales ratio (CFS), cash ratio (cash ratio). Also, debt- to- assets ratio (DA) variable to account for the effect of capital structure, the natural logarithm of the ratio of the market value of equity and book value of equity (Log PB- to account for investment potential). Sales revenue (SR) and the median of the industry scale capital expenditure to capture the firm size and industry effect following Bauer et al., (2007).

$$CAPEX_{it} = \alpha + \beta_1 TOBIN'S Q_{it} + \beta_2 CFS_{it} + \beta_3 DA_{it} + \beta_4 CR_{it} + \beta_5 \log PB_{it} + \beta_6 \Sigma ROYAL \& CG_{it} + \varepsilon_{it}$$

C) Finally, as with question two, the study uses the different measurements of ROA and Tobin's Q (adjusted Tobin's Q and (adjusted ROA) to check the robustness of the results.

Table 4.8.2. Variables definition: capital expenditure model

Symbol	Variable	Definition
$CAPEX_{it}$	Capital expenditures	Capital expenditures of firm i in period t and are scaled by sales revenue and net of the industry median value
Tobin's Q_{it}	Proxy of Market value	Market value plus book value of debt divided by book value of total assets
CFS_{it}	Cash flow to sales ration	Fund from operations/ net sales or revenues *100
DA_{it}	Debt to assets ratio (DA)	Total debt divided by total assets
CR_{it}	Firm's cash ration	The ratio of cash and cash equivalents over net assets (balance sheet total assets minus cash and cash equivalents)
$\log PB_{it}$	The logarithm of price to book ratio ($\log PB$).	The natural logarithm of the ratio of the market value of equity and book value of equity
$\Sigma ROYAL$ and CG_{it}	Royal and corporate governance attributes	The royal family and CG variables of firm i in period t defined in table 3.4.2.B

4.9 Conclusion

The purpose of this chapter was to document the philosophical foundation of the study, research method, methodology, and data collection for the empirical testing. This chapter is structured as follows: Section 4.2 describes the research paradigm, which is the positivist paradigm, as being the most suitable approach for all three-research questions. The adoption of this approach indicates the use of deductive reasoning and quantitative method to answer the three research questions. Following that, Section 4.3 outlines the data sample for the three research questions. Sections 3.4 represents data sources and collection of financial data, governance data, and ownership data. Section 4.5 discusses a diagnostic test, regression model and control variables used in the three research questions. This study employs three regressions pool OLS regression, panel data regression with random effect, and GMM regression. The primary results of these three research questions based on GMM regression as the most reliable regression and correct most of the econometric issues such as endogeneity. The selection of the model of each research question is based on stepwise, AIC and BIC techniques. Section 4.6 details the measurement of EQ which is abnormal working capital accrual (AWCA) based on Defond & Park model (2001), the control variables, regression model and robustness test which is abnormal accrual accounting (AAA) based on Modified Jones model (1995) to examine the hypotheses of research question one. Section 4.7 outlines the measurement of firm performance and firm value, which are the return on assets (ROA), return on equity (ROE), and Tobin's Q. The control variables, regression model and robustness test examine the hypotheses of research question two. As there is no unique method to select the relevant CG variables to answer research question two in the subsection 3.7.2, principal component analysis (PCA) method is presented to reduce the CG data set to a more practical size while still providing all the original information. Additionally, the second model for question two based on individual CG variables that are also discussed. Section 3.8 provided regression model and robustness test for testing the hypotheses of research question three. Thus, in this chapter, the data of CG, EQ, firm performance, and firm value is analyzed using some econometric models to test the relationship between variables. Next chapters (5, 6 and 7) provide the results and analysis of research question one to three. Chapter 5 outlines the statistics of the effect of CG on EQ where chapter 6 discusses the regression analysis of the impact of CG on firm performance and firm value. Chapter 7 provides the analysis for the effect of the attendance of royal family members at board meetings on firm performance and firm value.

Chapter 5

The analysis and Results of Internal Corporate Governance and Earnings Quality.

5.1 Introduction

The previous chapter discussed the methodology of the three research questions in detail. This chapter covers the results of the first research question ;the effect of internal corporate governance on earnings quality in five GCC countries. This chapter is organised as follows: section 5.1 provides descriptive statistics, correlation matrix, and univariate analysis to better understand the data. Section 5.2 explains the multivariate analysis of the main results and section 5.3 briefly explains robustness regression models in GCC countries, as well as individual countries. Section 5.4 provides a discussion of the results and section 5.5 provides a summary conclusion.

5.2 Empirical Findings

5.2. A Descriptive Statistics

Table 5.1 provides descriptive statistics for the predicted, predictor and control variables used in research question one. The average family ownership (FAMC) is approximately 14 percent, and state ownership (STATC) is also 14 percent. Institutional ownership (INSTITC) comprises of about 22 Percent, whilst only 6.8 percent of sampled firms have CEO duality (CEOD). Among these members, 60 percent are independent directors (IND). There are a small percentage of royal family members (ROYAL) on the board with a percentage of 3 percent. Furthermore, on average, a board of directors (BSIZE) is composed of eight members. On average, 28 percent of the audit committees have at least one member who possesses financial or accounting expertise (AUDITEX). Regarding control variables, on average, the firm growth (GROWTH) is about 3.6 percent. The mean of Leverage

(LEVERAGE) is approximately 40%. The average of size (LN_SIZE) is USD 12.48 million/. More than half of the companies hire one of the Big-4 external auditors (BIG4).

Table 5.2 shows a correlation matrix for predicted, predictor and control variables. Family ownership (FAMC) and Institutional ownership (INSTITC) indicate a significantly positive correlation with AWCA⁶⁷ while state ownership (STATC) exhibits a significantly negative correlation with AWCA. CEO duality (CEOD) appears to show a positive and significant association with AWCA. Board Size (BSIZE) is significantly negative correlated with AWCA. Regarding control variables; growth (GROWTH) and leverage (LEVERAGE), both show positive correlation with AWCA. In addition, firm size (LN_SIZE) and Big-4 (BIG4) appear to have a negative association with AWCA. With expectation of the results of CEOD, these correlations are consistent with the research expectation, theoretical model (agency theory) and empirical evidence. All other correlations are relatively low, and all variance inflation factors (VIF) are below 10 indicating that multicollinearity is not problematic. Therefore, verifying the validity of data (Bowerman & O'Connell, 1990; Myers, 1990; Tabachnick & Fidell, 2001).

5.2.1 B Univariate Analysis:

Table 5.3 presents univariate test relation between earnings quality and the ratio of the royal family on the board. The results show evidence that the means are not different from hypothesis value (p-value >0.05). Thus, this result does not suggest that higher EQ of the firm is more likely to select a higher number of royal family members on the board. However, conducting regression analysis would give a clearer picture of the effect of ratio of royal family members on the board has on firm earnings quality.

5.3 Multivariate Analysis:

Table 5.4 presents the results of the multivariate model of the total sample of firms (GCC countries). As mentioned before, AWCA, which is the absolute value of abnormal working capital, is the predicted variable (a proxy of EQ) and the attributes of CG and control variables are the predictor variables to examine the effectiveness of CG variables on EQ in the context of GCC countries.

⁶⁷ AWCA is abnormal working capital, which is a proxy for earnings quality (EQ).

5.3.A. CG and (AWCA) Defond & Park- GCC countries

Table 5.4.A shows the three model specifications of all GCC countries. The results are in hold in these three-model specifications. Interestingly, CEOD (CEO duality) has a negative association with AWCA (LN_AWCA coefficient= -0.054; -0.054; -0.057; P- value<1%). The result is not only contrary to the theoretical claim (agency theory) and the majority of empirical evidence but also to the stated hypothesis, which is that there is a negative relationship between CEO duality and EQ. A possible explanation is that a separate structure between CEO and chairman may not necessarily be the best. Even in academic literature for the last few decades, there have been inconsistent results with regards to CEO duality versus non- duality (Iyengar & Zampelli, 2009; Dalton & Dalton, 2011). Theoretically, agency theory argues that the separation of power is important for the effective balance of power distributed among the board of directors or board members, especially CEO duality. This may impair the board's ability, specifically non-executive and independent directors, to monitor. Hence, agency theory strongly recommends the separation between two roles of leadership emphasizing that the separation of powers is for effective checks and balances in corporate governance. This emphasis causes researchers to pay less attention to the benefit of combined leadership (CEO duality) on corporate which increases the potential efficiency of a CEO duality on the board's structure. Obviously, there is a cost and benefit of CEO duality (Brickley et al., 1997 and Harrison et al, 1988). Importantly, there is growing literature support that CEO duality or a unity of leadership enhances firm ability to extend. The literature claims that the unity of leadership provides a more focused and flexible leadership, which helps to increase firm effectiveness, especially in dynamic business environment (Pfeffer & Slancik, 1978; Dahya et al., 1996; Finkelstein and D'Aveni, 1994). According to Kim (2013) a high number of large companies in US still adopt and encourage CEO duality even though there has been a heated debate and criticism of this adoption. The management of US companies believe that the adoption of combined leadership reduces the coordination cost and information asymmetry between executives and board members. Kim (2013) also emphasizes that firms are supposed to choose leadership structure (separation or combination of two roles) based on the specific nature of companies characteristics operations and corporate governance environment. Specifically, he concludes that the complex structure are more likely to have CEOD because the benefit outweighs the cost in terms of flexibility and reducing the information asymmetry and access to the information in a timely manner

between CEO and the rest of the board members. Kim (2013) argues that appointing and empowering a CEO is based on a trust relationship which encourages them for managerial stewardship behavior to manage the success of the firm in highly complex environment (Brickley et al., 1997).

Barney (1990) and Donaldson & Davis (1991) argue that CEOs care more about achievement, recognition, respect and reputation, which encourages and motivates them to enhance the firm value by managing the firm's resources as good stewards. Duru et al., (2016) argue that a country's cultural, legal and political environment affects the choice of leadership structure and quality of its corporate governance mechanisms. There are probably other powers on the board that reduce the concentration of power in the hands of CEO duality, such as having independent royal family members on the board who may act as chairman rather than regular independent directors. Naturally, CEOs have unique, firm-specific information about production and competitive conditions. Having a CEO with combined leadership is important to achieve the overall corporate objectives to keep the organization in business, and to create a greater prospect for future opportunities in the domestic and global market. Duru et al., (2016) recommend and encourage more studies of CEO duality, EQ, and firm performance. In addition, non-duality reduces the CEO's flexibility in pursuing corporate objectives and creates the prospect of an incessant conflict between the CEO and a self-interested chairman. This result enhances our understanding of CEOD. The implication of CEO duality has on a firm's corporate strategy depending on the context within which CEO duality is being examined. There is a clear difference between emerging markets and developed markets in terms of the nature and the extent of governance problems.

Another further possible explanation is that the power of a royal family on the board reduces the concentration of power in their hands and their incentive to manipulate the earnings to achieve personal benefits. However, the interaction term (CEOD _GROWTH) has a positive and statistically significant relationship with AWCA (coefficient= 0.021; 0.02; 0.22; P-value<10%); this weak relationship indicating that the higher the firm growth, the more likely the CEO with dual leadership will engage in earnings management, leading to lower firm earnings quality (Watt & Zimmerman, 1986; Shinner, 1993) because managers have more information about the firm to involve with earning management.

ROYAL (royal family members on the board) has a positive and statistically significant relationship with AWCA (LN_AWCA coefficient= 0.514; 0.580; 0.585 P-value < 5 percent). The result is contrary to the study hypothesis. However, this result is consistent with agency theory and previous literature that the political connected member has a negative influence on firm earnings quality (Faccio, 2010; 2006; Cheney et al., 2011; Fan et al., 2007). AL-Hadi, (2016), Mazaheri, (2013) and Emanuel et al., (2003) argue that using their power, ruling family directors are able to transfer wealth to themselves at the expense of other contracting parties through earnings management and rent seeking behavior to achieve personal interest.

Interestingly, IND_ROYAL (independent royal family member) has a negative and statistically significant relation with AWCA (LN_AWCA coefficient= -0.700; - 0.711; - 0.730 P- value<1%). This result is consistent with agency theory, new literature of independent politically connected board member (Batta et al., 2014, Du et al., 2014; Wang , 2015) and the research hypothesis. This result indicates that the independent royal family member plays a significant role in monitoring and reducing the agency cost. The independence of royal family members on boards eliminates the need for earnings management and provides an oversight over managerial decisions and activities to constrain the incentive of opportunistic behavior (Vance, 1983). These royal family members have more privilege and power in comparison to the rest of the board members, and having a role as independent directors, they might have a concern about the overall interest of shareholders. Therefore, they might encourage credible financial reporting to be produced to attract potential foreign investors. The result is in line with the theoretical claim and the finding of politically connected firms (Faccio et al., 2006; Goldman et al., 2008; Goldman et al., 2009; Batta et al., 2014, Du et al., 2014; Wang, 2015). Another possible explanation is that the independence of royal family members on the board might not be like other independent directors on the board but rather like a chairman playing an oversight thereby mitigating any agency conflict. Even though most of the signs of the variables support the expectation of the study but they are non statistically significant indicating that these variables do not affect EQ in GCC countries. For instance, interestingly, ownership variables across three models did not have a significant association with AWCA. Furthermore, the negative association also appears between the independent director and AWCA, but this result is not significant. Contrary to the study's expectation, board size and audit committee with a financial background have a positive relationship with AWCA but this relation is also non-significant

The study conducts OLS regression and panel data regression with the results shown in Appendix B. Under the OLS pool regression; royal, leverage and growth indicate a positive and significant association with AWCA where independent royal director and firm size both show a negative relationship with AWCA. Looking at panel data, there are significant relationships between control variables (growth, leverage, and firm size) and AWCA. However, the main results of this study are based on GMM⁶⁸ regression to mitigate endogeneity and biases of OLS regression and panel data regression⁶⁹.

⁶⁸ The results of OLS and Panel data regressions are totally different without firm size variable specifically for ownership structure variable and expertise of audit committee. However, the firm size is one of the most important control variables in the literature of corporate governance and cannot be ignored. The results without firm size are not reported for the sake of brevity.

⁶⁹ Complete tables of the results under OLS regression and panel regression are reported in the Appendix.

5.3.B. CG and (AWCA) Defond & Park- Individual countries

In the analysis, the study goes one step further by indicating that there is a possibility that some countries drive the results for all GCC countries. In addition, the researcher is aware of some differences among these countries, as discussed in the methodology chapter (4)⁷⁰. Therefore, I examine each country separately. Columns A, B, C, D, E, F and G of Table 5.4.B display the empirical results for each country, namely UAE, Dubai, Abu-Dhabi, Bahrain, Qatar, Oman, and Saudi Arabia, respectively based on country specific model⁷¹.

The association between state ownership (STATC) and AWCA is negative in Saudi Arabia (LN_AWCA coefficient= -0.040, P-value < 5 percent). The result is not in line with the theoretical claim (agency theory), the stated hypothesis, but is in line with some prior empirical findings. This result indicates that government ownership of non-financial listed companies in Saudi Arabia is more likely to have higher earnings quality compared to non-governmental owned companies. In addition, the literature highlights the benefit of state ownership on earnings quality. For instance, Ding et al. (2007) and Wang & Yung (2011) use discretionary accruals to examine the impact of private versus state ownership on EQ in China and they have detected a higher EQ in firm with state ownership.

CEO duality has negative associations with AWCA in UAE, Bahrain and Qatar (coefficient= -0.088, -0.046, -0.060; P-value < 5%, respectively). The explanations of CEO duality in GCC countries section can be applied here. On the other hand, only in Bahrain there is a positive relationship between interaction term CEOD_GROWTH and AWCA (coefficient= 0.146; P-value < 5%). A similar explanation in GCC country can be applied here.

There is a positive relationship between royal family members on the board and AWCA in Qatar and Saudi Arabia (LN_AWCA coefficient= 0.679; 1.129 P-value < 10% and 1% respectively). This can be explained by the existence of a royal family in GCC countries. Interestingly, only in Saudi Arabia, the independent royal family members on the board have

⁷⁰ More discussion regarding the differences between CG codes in GCC countries can be found in subsection (4.4.2.A).

⁷¹ Since the main model is not applicable due to the individual sample size of each country, each country has its own model based on AIC, BIC, and step-wise techniques. Therefore, based on these techniques, ownership variables should be eliminated from all individual country models except Saudi Arabia. In addition, the CEOD variables should be removed from the model of Saudi Arabia.

a significant and negative effect on AWCA (coefficient= -1.418, P-value< 1%). This result supports the theoretical claim (agency theory, the research hypothesis and the majority of literature), especially independent political connected director literature (Batta et al., 2014, Du et al., 2014; Wang, 2015). This also implies that the role of independent royal family members on the board is beneficial in overseeing the management to constrain earnings management in Saudi Arabia.

Like the findings in GCC countries, independent directors have a negative and non-significant association with AWCA in all individual countries. Interestingly, and contrary to the study expectation, a member of the royal family on the board has a positive and non-significant association with AWCA in UAE, Bahrain, and Oman where the independent royal family members in these countries have a negative and non-significant association with AWCA.

The researcher breaks down the sample of UAE into Abu Dhabi stock market and Dubai stock market. This finding gives evidence for more understanding if the result of the effect of CG on EQ in one market (Abu Dhabi stock and Dubai stock) has driven the outcome of the UAE due to differences, as explained in the methodology chapter (4)⁷². Therefore, Table 5.4.B presents the findings of Abu Dhabi and Dubai.

5.3 C. CG and (AWCA) Defond & Park- Abu Dhabi and Dubai

CEOD (CEO duality) has negative associations with AWCA in Dubai (LN_AWCA coefficient= -0.110 P-value < 1%) and there is a positive relationship between interaction term CEOD _GROWTH and (LN_AWCA coefficient= 0.032; P-value < 5%). A similar explanation in GCC countries can be applied here.

ROYAL (Royal families) have a negative association with AWCA in Dubai (LN_AWCA coefficient= -1.191, -P-value= 10%). This supports the research hypothesis and a number of empirical evidence regarding politically connected firms. A possible explanation is that royal family directors on the board in Dubai may help to ease company obstacles and may even have a beneficial role in monitoring, which reduces the earnings management. Dubai has the

⁷² More discussion regarding the differences between Abu Dhabi stock market and Dubai stock market can be found in subsection (4.4.2.A).

lowest ratio of royal family members on the board, compared to other GCC countries. Thus, there is less chance of conflict of interest among them and they play a more effective role.

5.3 .D. CG and (AWCA) Defond & Park: Control variables

With respect to control variables, the relationship between LEVERAGE (leverage) and AWCA is negative in GCC countries as one group, Bahrain and Qatar. This result does not meet the expectation of the study but is in line with some prior studies. For instance, Becker et al., (1998), and Ismail & Weelman, (2008) find a negative association between leverage and earnings management.

Additionally, firms with higher level of GROWTH (growth) have positive and statistical association with AWCA in GCC countries as one group, Bahrain, Qatar and Saudi Arabia. This result meets the study expectation and the prior findings of Abdularahman & Ali, (2006), Huang et al., (2008), Dimitropoulos & Asteriou (2010), and Matsumoto (2002). These studies conclude that the management of the fast-growing company has the incentive to manage the earnings to meet the targets. In addition, the firm ,with higher growth, is less likely to be effective (Andersen et al., 1993).

LN_SIZE (firms' size) and AWCA have a positive relationship in Dubai, Bahrain and Qatar. The result is not consistent with expectations of the study, but is consistent with some empirical evidence in the literature. Jensen & Meckling (1976) argue that the larger the firms, the higher the agency cost due to the increase of opportunistically managerial discretions. Pincus & Rajgopal (2002) note that large firms put more pressure on managers to report more predictable earnings. As a result, managers have the incentive to alter the earnings figures, taking advantage of the complexity of the firm operations and the difficulties of understanding them (Lobo & Zhou, 2006).

5.4 Robustness Tests

To check the robustness of results, the study conduct several additional tests. First, the study re-run regression using a different measurement of earnings management as proxy of earnings quality; thus, the study employ the absolute value of abnormal total accrual based on Modified Jones Model (1995). The results in the appendix B mostly support the findings of Defond & Park (2001). In other words, the signs of all the variables are remain unchanged. There are few differences between the primary results and the robustness test result. For

instance, there is a U-Shaped relationship between family ownership and AWCA. This result indicates that the earnings quality decreases in concentration at a low level of family ownership. The earnings quality improved further when ownership concentration is at a high level. In addition, board size has a negative association with AAA across three models. This result supports agency theory, stakeholder theory and the majority prior studies. This can be explained by the fact that the difference between these models, due to the influence of specific variables within the model, these variables detect a different kind of earnings management. Furthermore, there are several motivations, incentives and techniques of earnings management based on either stock market incentives or regulatory concern (Healy & Wallen, 1999). Using specific accrual, it was recommended by prior researchers such as McNichols (2000) & Jambalvo (1996) to gain fruitful results and aggregate accrual is subject to controversy and is not able to give much insight (Marrqadt & Wjedman, 2004), which may not reflect the fundamental problem. The modified Jones' Model (1995) focuses on total accrual, which is general, whereas the Defond & Park (2001) model deals with specific accrual, which is working capital. Due to the differences between these models, there is probably a difference in some results.

Second, the study re-run the main model using alternative measures of independent royal family members which represent a dummy variable that takes a value of one if the royal family member on the board is an independent director and zero otherwise. The results remain unchanged. In addition, the study re-run the main model by including new variables (corruption⁷³) as an instrument and checking the robustness of the results. The results remain unchanged but corruption is not statically significant with EQ.

Furthermore, the study assesses the impact of a financial crisis and since the results of CEO duality is negative with AWCA. Understanding that the events happened during the sample year is important in order to explain the results (Essen et al., 2013, Villanueva-Villar et al., 2016). Thus, the study constructs a new variable called period and defined it as follows: a dummy variable takes the value of one if the year is between 2009 and 2010, which represents the years of hardship, and zero for the years between 2011-2013, which represent the years of recovery. The study also constructs the interaction variable between CEO duality and period. These variables have been added to the main regression model. The result is negative and

⁷³ The motivation and measurement of the corruption variable are discussed in methodology chapter 4.

significant between interaction term (CEOD_PERIOD) and AWCA under OLS and panel data random effect regression but the significant disappeared under GMM regression⁷⁴.

Furthermore, the study includes the country specific minority protection score⁷⁵ in the main model and the results remain unchanged but minority protection is not statically significant with AWCA. It is worth noting that the full results of these variables under OLS, panel data, and GMM regressions are reported in Appendix B.

5.5. A Discussion

The originality of the study is to examine the effect of internal corporate governance on earnings quality with the focus on royal family members on the board. To the best of this author's knowledge, the study is the first research to examine the effect of royal family members on the board on earnings quality in five GCC countries. Second, the analysis presented in this chapter shows that some CG mechanisms influence EQ positively. The main findings of this research question are that the higher ratio of royal family members on the board reduces firm EQ. This also supports the claim that the royal family may trigger the agency problem between controlling and minority shareholders. Thus, they might protect the board member's interest at the expense of minority shareholders (Al-Hadi, 2016). This result is also significant in Qatar and Saudi Arabia when the study examines an individual country. The possible explanation of these results is that Qatar has the highest number of royal family members on the board followed by Saudi Arabia compared to other GCC countries. There might be a conflict of interest among them which increases the agency problem leading to more opportunistic behavior of management, which in turn, lowers the firm's earnings quality. In Dubai, the royal family members have a positive influential role on the board of directors that also benefits other shareholders. This result also supports a number of politically connected literature (Faccio et al., 2006; Goldman et al., 2008; Goldman et al., 2009; Batta et al., 2014).

⁷⁴ A period variable and the interaction term CEOD_PERIOD are dropped in GMM regression due to the multicollinearity.

⁷⁵ The motivation and measurement of the minority protection score variable are discussed in methodology chapter 4.

Another interesting and novel finding which came out of the study is that independent royal family members on the board enhance earnings quality of the firm providing oversight of management decisions and mitigating the agency conflict. This supports the claim that the independent politically connected directors are a particular type of independent director, expected to monitor the manager and controlling shareholders to protect the interest of minority shareholders. Independent political connected directors play a significant role in monitoring due to the fact that they care more about their reputation than other independent directors. Another possible explanation is that the independence of royal family members on the board might not like other independent directors being on the board but rather like a chairman playing oversight, thereby mitigating any agency conflict. This result is also significant in Saudi Arabia when the study examines an individual country.

Surprisingly, CEO duality has a negative effect on firm earnings quality. A possible explanation is that the separate structure between CEO and chairman may not necessarily be the best. There is a growing literature to support the fact that CEO duality or a unity of leadership enhances a firm's ability to extend. The literature claims that the unity of leadership provides more focused and flexible leadership, which helps to increase firm effectiveness, especially in a dynamic business environment. A possible explanation for this is that it might affect the power of a royal family on the board and the independent royal family on the board reduces the effect of CEO opportunistic behavior. This result is also significant in UAE, Bahrian and Qatar when the study examines an individual country. However, this result should be taken with caution as the investigation of CEO duality should be considered with characteristics of the firm such as growth (Gill & Mathur, 2011). Interestingly, the study examines the interaction term between CEO duality and firm growth and finds the CEO with combined role (CEO duality) in high growth firm is more likely to behave opportunistically, which in turn lowers firm earnings quality. This indicates that the CEO duality has a higher cost on firm earnings quality in high growth companies. This result is also significant in Bahrian. The smaller the number of board members, the more effective the board in monitoring and constraining the opportunistic behavior of management in UAE, Qatar and Oman. All these results are in line with agency theory perspective and some prior studies.

Empirically, it is important to account for econometric problems such as endogeneity. The study notices some differences in the results of all GCC countries and individual countries

between OLS regression, panel data regression and GMM regression. For instance, in Saudi Arabia, under OLS regression and panel regression, the individual ownership variables FAMC, STATC, board size are negative and statistically significant and leverage is positive and statistically significant. Some of these significantly disappear under panel data random effect regression and GMM regression. This is true for the rest of the data. This is normal when the study is controlled for certain econometric issues, such as stationary and endogeneity problems. Therefore, controlling endogeneity issues is a matter for the analysis. Finally, a number of recommendations emerge from these findings. The policymakers should encourage the involvement of independent royal family members on the board rather than just royal family members on the board to improve firm earnings quality and reduce the concentration of power in the hands of CEO with dual or combined leadership. Furthermore, there is no relationship found between general IND (independent directors on the board) and EQ. Thus, the policymakers should foster the requirement of nominating independent directors on the board. This supports the claim that the true independent directors in GCC countries do not exist and there is minimal involvement of independent directors in decision making and reducing the conflict of interest in the region (Mujtaba & William, 2011).

5.6. Conclusion

The aim of the study is to investigate the effect of internal corporate governance on earnings quality in five GCC countries with particular attention to royal family members on the board. This chapter is divided into a number of sections. Section 5.1 presents descriptive statistics, correlation matrix, and univariate analysis, which are the starting point for understanding the data, and answering the research question. Section 5.2 describes the regression results and Ssection 5.3 explains the results of robustness tests to confirm the results of GCC countries and an individual country. Section 5.3 provides a discussion of these results. The main findings of the study are consistent with agency theory and the finding of previous literature. Royal family directors reduce the firm earnings quality where independent royal family members on the board improve the earnings quality of a firm, especially in Saudi Arabia. The CEO duality has a positive relationship with firm earnings quality; this result is contrary to agency theory but supports the recent literature arguing that the CEO duality may not be harmful for the firm. It also supports the probability that the power of royal family on the board and the independent royal family on the board reduces the effect of CEO opportunistic behavior. Considering the firm characteristic is important , thus, the results also indicate CEO duality (dual or combined leadership) in the high growth firm significantly decreases firm's earnings quality. This result remains unchanged using different robustness checking tests. In sum, the findings of the research question one suggest that a good number of CG mechanisms help to increase firm EQ. The next chapter illustrates the results of research question two, the effect of internal corporate governance on firm performance and firm value in five GCC countries.

Table 5.1. (AWCA)-Descriptive Statistics of CG and EQ- GCC Countries					
Variable	Mean	Median	Std. Dev.	Min	Max
AWCA	0.050	0.030	0.053	0.002	0.201
FAMC	0.136	0.060	0.187	0	0.991
STATC	0.144	0	0.216	0	0.893
INSTITC	0.224	0.134	0.260	0	1
CEOD	0.068	0	0.252	0	1
IND	0.599	0.571	0.280	0	1
ROYAL	0.028	0	0.054	0	0.2
BSIZE	7.895	8	1.70	4	18
AUDITEX	0.278	0.333	0.099	0	0.5
GROWTH	0.036	0.019	0.117	-0.186	0.336
LEVERAGE	0.401	0.376	0.245	0.055	1.117
LN_SIZE	12.482	12.321	1.885	8.124	16.17154
BIG4	0.627	1	0.483	0	1

N=1,215

Notes: *AWCA* is the absolute value of abnormal working capital accrual based on Defond and Park, 2001 model scaled by beginning total assets. *FAMC* is the percentage of family ownership. *STATC* is the percentage of state ownership. *INSTITC* is the percentage of institutional ownership. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *IND* is the ratio of independent director to the total directors. *ROYAL* is the ratio of royal family member to the total directors. *AUDITEX* is the ratio of member with financial or accounting expertise to the total director. *BSIZE* is the board size. *GROWTH* is the annual change in net sales divided by total assets. *LEVEVERGE* is total liabilities divided by total assets. *LN_SIZE* is the natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table 5.2. (AWCA)- correlation Matrix- CG and EQ- GCC countries													
	AWC A	FAM C	STAT C	INSTI TC	CEO D	ROYA IND L	AUDIT EX	BSIZ E	GROW TH	LEVERA GE	LN_SI ZE	BIG4	VIF
AWCA	1												
FAMC	0.038*	1											1.39
STATC	-0.127*	-0.295*	1										1.38
INSTITC	0.110*	-0.205*	-0.267*	1									1.51
CEOD	0.024*	0.059*	-0.068*	-0.091*	1								1.04
IND	-0.019	-0.015	-0.084*	0.180*	0.062*	1							1.14
ROYAL	-0.008	0.006	0.021*	-0.066*	0.060*	-0.119*	1						1.08
AUDITEX	0.013	-0.009	-0.149*	-0.027*	0.028*	0.082*	-0.040*	1					1.07
BSIZE	-0.094*	-0.187*	0.111*	-0.147*	0.028*	-0.197*	0.113*	-0.048*	1				1.29
GROWTH	0.121*	0.038*	-0.077*	0.060*	0.047*	0.005	-0.047*	-0.008	0.022*	1			1.03
LEVERAGE	0.111*	0.091*	-0.021*	0.155*	0.109*	0.081*	-0.090*	0.008	0.030*	-0.010	1		1.27
LN SIZE	-0.114*	-0.210*	0.349*	-0.336*	0.017	-0.282*	0.168*	-0.063*	0.432*	-0.010	0.213*	1	1.89
BIG4	0.0686*	-0.101*	0.129*	0.028*	0.040*	-0.063*	0.134*	0.095*	0.115*	0.091*	0.125*	0.210*	1.12

Notes: *AWCA* is the absolute value of abnormal working capital accrual based on Defond and Park, 2001 model scaled by beginning total assets. *FAMC* is the percentage of family ownership. *STATC* is the percentage of state ownership. *INSTITC* is the percentage of institutional ownership. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *IND* is the ratio of independent director to the total directors. *ROYAL* is the ratio of royal family member to the total directors. *BSIZE* is board size. *AUDITEX* is the ratio of member with financial or accounting expertise to the total director. *GROWTH* is the annual change in net sales divided by total assets. *LEVEVERGE* is total liabilities divided by total assets. *LN_SIZE* is the natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table 5.3. (AWCA)-Univariate Analysis-T-test- GCC Countries				
Variables	AWCA	t-statistics	Ln_AWCA	t-statistics
Royal high	0.48	0.566	0.48	0.644
Royal low	0.50		0.50	

5. 4.A. (LN_AWCA)-GMM Regression of CG and EQ- GCC Countries				
		Model 1	Model 2	Model3
S		-0.653	-0.977	-0.938
		-0.66	-0.69	-0.68
DUMMY	+	-0.002		
		-0.01		
	+		-0.135	
			-0.2	
2	-		0.377	
			-0.47	
D DUMMY	+	-0.027		
		-0.02		
	+		-0.18	
			-0.12	
2	-		0.705	
			-0.49	
FC DUMMY	-	-0.003		
		-0.01		
FC	-		-0.062	
			-0.09	
FC ²	-		-0.111	
			-0.46	
	+			-0.015
				-0.03
	+	-0.054**	-0.054**	-0.057***
		-0.02	-0.02	-0.02
	-	-0.003	-0.002	-0.003
		-0.02	-0.02	-0.02
L	-	0.514**	0.580**	0.585**
		-0.25	-0.26	-0.26
LOYAL	-	-0.700***	-0.711***	-0.730***
		-0.23	-0.24	-0.23

SIZE	-	0.061	0.056	0.06
		-0.04	-0.04	-0.04
TEXT	-	-0.013	-0.006	-0.009
		-0.03	-0.03	-0.03
OWTH	+	0.067***	0.063**	0.064***
		-0.02	-0.02	-0.02
LN_GROWTH	+	0.021**	0.02**	0.22**
		-0.1	-0.1	-0.1
VEVERGE	+	-0.081**	-0.085**	-0.083**
		-0.04	-0.04	-0.04
CE	-	0.185	0.291	0.278
		-0.21	-0.23	-0.22
	-	0.005	0.005	0.005
		-0.01	-0.01	-0.01
WCA		0.002	0.003	-0.001
		-0.06	-0.06	-0.05
FAMILY DUMMY		Yes	Yes	Yes
STATE DUMMY		Yes	Yes	Yes
INSTITUTIONAL DUMMY		Yes	Yes	Yes
		678	683	683

*, ** and *** denote significant at 10%, 5% and 1% levels respectively

WCA is the natural logarithm of the absolute value of abnormal working capital accrual based on Defond and Park, 2001 model scaled by ending total assets. *FAMC_DUMMY* is a dummy variable of family ownership. *STATC_DUMMY* is a dummy variable of state ownership. *INSTC_DUMMY* is a dummy variable of institutional ownership. *FAMC*, *STATC*, and *INSTC* are the percentage of family ownership, state ownership and institutional ownership respectively. *FAMC*², *STATC*², and *INSTC*² are the square term of family ownership, state ownership and institutional ownership respectively. *OWN* is the ownership concentration. *CEOD* a dummy variable that takes the value of one if the CEO also serve as chairman of the board and Zero otherwise. *IND* is the ratio of independent director to the total directors. *ROYAL* is the ratio of royal family members to the total directors. *IND_ROYAL* is interaction term between independent directors and royal family members. *LN_BSIZE* is natural logarithm of the board size. *AUDITEX* is the ratio of member with financial or accounting expertise to the total director. *LN_GROWTH* is the natural logarithm of the annual change in net sales divided by total assets. *CEOD_GROWTH* is interaction term between CEO duality and firm growth. *VEVERGE* is the natural logarithm of total liabilities divided by total assets. *LN_SIZE* is the natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

- GMM Regression of CG and EQ- Individual Country							
	UAE	UAE_AB	UAE_DU	BH	Qatar	Oman	SA ⁷⁶
Expected sign	-1.428	3.243	-10.040***	-15.242***	-2.334**	-1.278	-0.379
	-3.13	-2.73	-2.85	-5.7	-1.02	-0.84	-2.06
+							-0.004
							-0.02
+							-0.040**
							-0.02
IY	-						-0.001
							-0.01
+	-0.088***	-0.130***	-0.110***		-0.060**	-0.001	
	-0.03	-0.06	-0.01		-0.03	-0.02	
-	-0.033	-0.040	0.002	0.054	0.012	-0.002	0.025
	-0.04	-0.05	-0.12	-0.06	-0.05	-0.02	-0.03
-	0.176	0.264*	1.191*	0.089	0.679*	0.486	1.129***
	-0.73	-0.47	-0.61	-0.08	-0.4	-0.75	-0.38
-	-0.319	-0.220*	0.188	-0.231	-0.148	-0.594	-1.418***
	-0.59	-0.68	-0.94	-0.15	-0.58	-0.76	-0.39
-	-0.231	-0.138	-0.138	-0.0951	0.000	0.033	0.136
	-0.06	-0.09	-0.09	-0.05	0.04	-0.11	-0.06
-	0.243**	-0.138			0.427**	0.137*	-0.004
	-0.11	-0.09			-0.2	-0.07	-0.07
+	0.071	-0.032	0.02	0.136***	0.146**		0.106***
	-0.06	-0.12	-0.12	-0.03	-0.04		-0.07
I	+	0.036	0.0552**	0.032**	0.007		
		-0.02	-0.22	-0.01	-0.02		
	+	0.006	0.237	0.063	-0.348**	-0.144	-0.132**
		-0.12	-0.14	-0.17	-0.12	-0.06	-0.09

⁷⁶ The U-shaped relationship model, and concentration ownership model have been tested as well but the results are non-significant.

-	0.301	-1.215***	3.265***	5.063***	1.084***	0.348	0.117
	-1.02	-0.86	-0.91	-1.89	-0.31	-0.28	-0.69
-	0.009	0.027			0.01	-0.01	0.011
	-0.01	-0.02			-0.01	-0.02	-0.01
	-0.179	-0.521*	-0.521*	-0.035	0.239	-0.038	-0.044
	-0.11	-0.27	-0.27	-0.1	-0.19	-0.09	-0.09
	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MY	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	117	74	43	30	55	209	270

* denote significant at 10%, 5% and 1% levels respectively

atural logarithm of the absolute value of abnormal working capital accrual based on Defond and Park, 2001 model scaled by beginning total
AMY is a dummy variable of family ownership. *STATC_DUMMY* is a dummy variable of state ownership. *INSTITC_DUMMY* is a dummy
onal ownership. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise.
ndependent director to the total directors. *ROYAL* is the ratio of royal family member to the total directors. *IND_ROYAL* is interaction term
nt directors and royal family members. *AUDITEX* is the ratio of member with financial or accounting expertise to the total director.
ral logarithm of the board size. *LN_GROWTH* is the natural logarithm of the annual change in net sales divided by total assets.
is interaction term between CEO duality and firm growth. *LN_LEVEVERGE* is the natural logarithm of total liabilities divided by total
the natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and

Chapter 6

The Analysis and Results of Corporate Governance and Firm Performance and Firm Value

6.1 Introduction

The former chapter discussed the result of research question one which focuses on CG and EQ in GCC countries. This chapter reports the results of research question two, which is what the effect of CG is on firm performance and firm value in five GCC countries. The chapter is organised as follows: section 6.2 offers descriptive statistics, correlation matrix, and univariate analysis for predicted variables, predictor and control variables; section 6.3 discusses the regression results for GCC countries as well as individual country; section 6.4 briefly presents the robustness results; section 6.5 offers a discussion of the results and section 6.6 provides a summary conclusion.

6.2. Empirical Findings

6.2.B. Descriptive Statistics and Correlation Matrix

Table 6.1 presents descriptive statistics for the main model variables⁷⁷. These preliminary findings show the relationship between firm performance, firm value, ownership structure and CG. The ownership structure shows that 14 percent of shares are family owned (FOC), whereas governments own 13.8 percent of shares (STATC). Approximately 21.4 percent of shares are retained by institutional investors (INSTITC), and this indicates a high percentage of institutional ownership in the region. On average, the board of directors is composed of eight members (BSIZE). In addition, there is a small representation of females (FEMALE) on the board of approximately 0.2 percent. Not surprisingly, (RELATIVES) relatives represent 11.6 percent of the boards in the region. Among these members, 59 percent are independent directors (IND). The

⁷⁷ The descriptive statistics for the main variables (dependent variables, independent variables and control variables) is before using Principal component analysis (PCA) to have meaningful understanding of the data.

table also reveals that CEO duality (CEOD) is approximately 7.4 percent of sampled firms. The average number of board meetings (BMEET) in the financial year is six. There are very few royal family members (Royal) and government officials (Gov) represented on these boards. This is an average 3 percent and 1.3 percent respectively.

With regard to audit committee characteristics, the average size of the committee is three members (AUDITSIZE); of which 62.8 percent are independent (AUDITIND). This committee meets approximately five times per annum (AUDITMEET). On average, 28 percent of the audit committees have at least one member who possesses financial or accounting expertise (AUDITEX). More than half of the companies hire one of the Big4 external auditors (BIG4).

Regarding control variables, on average, the firm size (SIZE) is \$12.69 million . The mean of Leverage (LEVERAGE) is about 38 percent. The mean of the growth (GRWOTH) is 2.9 percent

The cross-correlation matrix for the variables is reported in table 6.2⁷⁸. The results show that institutional ownership is indirectly related to firm value. Family ownership shows a positive association with firm performance. Board size is positively correlated to firm performance. Contrary to the expectation, there is a negative correlation between independence of board of directors, independence of audit committee members and firm performance and firm value, which is also significant. The CEO duality has indirect association with firm performance. The presence of royal family members and government officials has a direct correlation with firm performance. Interestingly, the number of board meetings is significantly negative with firm performance. All other correlations are relatively low indicating no problem of multicollinearity. In addition, all VIF (Variance Inflation Factor) are below a reading of 10. This may indicate that there is no problem of multicollinearity among the variables. Therefore, this also indicates the validity of data (Bowerman & O'Connell, 1990; Myers, 1990; Tabachnick & Fidell, 2001).

6.2. B Univariate Analysis

⁷⁸ The correlation matrix for the main variables (dependent variables, independent variables and control variables) is before using Principal component analysis (PCA) to have meaningful understanding of the data.

Table 6.3 reports the ROA and ROE⁷⁹ by high royal group (greater than median value) and low royal group (less than or equal to the median value). The p-value associated with t-tests is small (<0.05), thus there is evidence that the mean is different for the two groups. This result indicates that better performing firms are more likely to select royal family members.

6.3. Multivariate Analysis

6.3.A.CC, Firm Performance and Firm Value- GCC Countries

A. In Model 1

A positive significant relationship is seen between expertise factors and firm performance (LN_ROA; LN_ROE: coefficient = 0.006; 0.007 p-value $< 5\%$ and 10% , respectively). The expertise factor encompasses royal family members on the board as well as hiring one of the Big 4-auditing firms. This result is in line with a theoretical claim (agency theory), the research question expectation and empirical evidence. According to Algamdi (2012), the presence of ruling family members on a board increases firm performance as they may expand the company's competitive environment and therefore, benefit the companies through networking and their privileges, leading to better performance. This supports the majority of politically connected firms literature (Faccio et al., 2006; Fisman, 2001; Johnson & Mitton, 2003; Charumilind et al., 2006; Leuz & Oberholzer-Gee, 2006; Siegel, 2005).

In relation to the Big-4, prior studies show a positive relationship between Big-4 and firm performance. This is particularly the case in weak investor protection environments where firms which hire one of the Big-4 audit firms have a better performance record (Rodriguez & Alegria, 2012; Choi et al., 2008; Choi & Wong, 2007; Niskanen et al, 2011). This is because Big-4 audit firms are concerned with their brand and reputation (Francis et al., 1999; Kim et al., 2004; Wiwanya & Aim, 2008). Another explanation is that royals may use their influence or power to secure the expertise of Big 4 audit firms.

With respect to other factors, namely independence factor, family factor, board factor, government factor, effectiveness factor, board composition factor and control variables (growth,

⁷⁹ The study was not able to run the t-test between Tobin's Q (firm value measure) and royal family members on the board or attendance of royal family members at the board meetings because of limit variation of royal family members on the board, attendance of royal family members at the board meetings with Tobin's Q.

leverage, and firm size), The study fail to find any significance between these variables, firm performance and firm value under GMM regression.

The study first conducted OLS regression and panel data regression. Under the pool OLS regression of model 1, independence factor shows a negative and significant relationship with firm performance while the board factor indicates a negative and significant association with firm value. These results are contrary to the study expectations and also with agency theory. Government factor shows a positive relationship with firm performance and firm value. Expertise factor shows a positive association with firm performance. With regard to control variable, growth and leverage appear to have a significant association with firm performance and firm value. Most of these significant factors disappear with the study's control for endogeneity problem.

B.In Model 2

Model (2A): family ownership has a positive association with firm performance (LN_ROA and LN_ROE: coefficient = 0.01; 0.015, p-value < 5%, respectively). The result is in line with the theoretical claim (agency theory – alignment effect), the majority of empirical evidence on a number of prior studies documents that family-owned businesses have better corporate performance (Lee, 2006), more substantial growth, and improves and lower monitoring costs (Holderness & Sheehan, 1988; Shleifer & Vishny, 1986; Martikainen et al., 2008; Barontini & Caprio, 2005 Villalonga & Amit, 2006). This is because they understand their own business (Anderson & Reeb, 2003) and family members are employed in management as stewards of the firm.

Under the model (2B), there is a U-shaped relationship between government ownership and firm value (LN_Tobin's Q: coefficient = 2.685; -5.871, p-value < 5%, respectively). This result indicates that the firm value increases in concentration at a low level of state ownership. The firm's value reaches a minimum when ownership concentration is at a high level (Bohren & Odegaard, 2001; Fernandez & Gomez, 2002; Connell & Servaes, 1990).

Under the model (2C), the concentration ownership has a positive association with firm value (LN_Tobin's: coefficient = 0.206, p-value < 1%). This result indicates that the ownership

concentration is associated with a high firm value. This result also supports the prior studies (Fama & Jensen, 1983; Sanchez & Meca, 2005).

Under three models (A, B, and C), there is a positive association between board size and firm performance (LN_ROA and LN_ROE: coefficient = 0.056; 0.100 p-value < 5%, respectively). The result is in the line with the theoretical claim (agency theory), the expectation of the study and prior empirical studies (Yawson, 2006, Yermack, 1996, Gust, 2009). Yu (2008), and Kline (2002) posit that a large board size has more capability to act in the shareholders' best interests because of the diverse expertise and skills.

With regard to nonsignificant relationships, across all three models, royal family members and an interaction term between royal family members and Big-4 has a positive but non-significant association with firm performance and firm value. Interestingly, the sign of variable independent directors has negative sign but this result indicates a non-significant association with firm performance and firm value.

6.3.B. Firm Performance And Firm Value: Individual Country

The study goes one step further because there is a possibility that some countries drive the results for all GCC countries. In addition, I am aware of some differences among these countries as discussed in the methodology chapter (4). Therefore, I examine each country separately. Tables 6.5.A, 6.5.B, 6.5.C, 6.6A, 6.6.B, 6.5.C, display the empirical results for each country, namely Bahrain, Oman, Saudi Arabia, Qatar, and UAE. In this section, the results of two models are discussed and it is important to report the results of firm performance and firm value separately as the research deals with five individual countries.

A. Model 1

Under the firm value measurement, independence factor has a positive and statistically significant association with firm value in Bahrain and Saudi Arabia (LN_Tobin's Q: coefficient = 0.230; 0.135 p-value < 1%, 5%, respectively). Also, the independence factor has a positive association with firm performance in Bahrain (LN_ROA and LN_ROE: coefficient = 0.025; 0.017 p-value < 10%). This factor includes the independence of the board of directors and audit committee. The result is in line with the theoretical claim (agency theory, the expectation and prior studies

conducted in emerging and developed markets). A brief reference to literature supports the findings. Rutledge et al., (2016), Gupta & Fields, (2009) find that firms with more effective board monitoring have more independent directors which, in turn, leads to better firm performance and firm value.

There is a positive and significant relationship between board factor and the firm performance in Bahrain and Qatar (LN_Tobin's Q: coefficient = 0.212; 0.107, p-value < 1%, 10% respectively). This factor has a positive association with firm performance in Qatar and Saudi Arabia. The board factor includes board size and meetings as well as audit size and meetings (LN_ROA: coefficient = 0.007; 0.001, p-value < 5%, 10%, respectively) and (LN_ROE: coefficient = 0.001; 0.007, p-value < 1%, 5%, respectively) in Qatar and SA. The result is in line with the theoretical claim (agency theory) as well as the expectation and prior studies conducted in emerging and developed markets. A brief reference to literature supports these findings. A number of studies claim that large boards and a large audit committee are more effective on monitoring, cooperation and controlling the CEO than small ones (Haniffa & Hudaib, 2006). Board and audit committee meetings are frequently known to generate higher performance levels (Vefees, 1999, Ntim, 2009). The frequency of board meetings measures how active the board is in addressing critical problems.

Government factor has a positive association with firm value in Bahrain and Qatar (LN_Tobin's Q: coefficient = 0.152; 0.319, p-value < 1%, 10%, respectively). This factor also has a positive association with firm performance in Bahrain and Saudi Arabia (LN_ROA, coefficient = 0.001; 0.007, p-value < 5%, 10%, respectively); (LN_ROE: coefficient = -0.028; -0.046, p-value < 10%, respectively) where a negative association is observed in UAE (LN_ROA, LN_ROE: coefficient = -0.028; -0.046, p-value < 10%, respectively). Government factor includes government ownership and government officials. With regard to the positive association in Bahrain, Qatar, and Saudi Arabia, this result is contrary to theoretical claims (agency theory, and the study expectation). However, it is in line with some prior studies where much growth and investment of the firm is expected through government ownership and the involvement of government officials. In addition, according to Bos' (1991), government effectiveness is different in different circumstances, such as competitive and non-competitive environments. In GCC countries, the stock market is not as competitive as developed markets (Amico, 2014). Therefore, the government has more of an incentive to monitor management and regulate firms to reach a compromise between the firm's objectives and the government's social welfare objectives. With

respect to UAE result, government ownership in UAE lowers the firm's performance due to selecting directors based on political and social goals rather than their experiences (Saleh et al., 2009).

The effectiveness factor shows a negative and statistically significant association with firm value in UAE, Bahrain, Qatar, Saudi Arabia (LN_Tobin's Q: coefficient = -0.176, -0.170, -0.216, -0.171, p-value < 1%, 5%, respectively). In addition, this factor also indicates a negative association with firm performance in the same countries (LN_ROA: coefficient = -0.009, -0.013, -0.015, -0.007, p-value < 1%, 5%, 10%, respectively); (LN_ROE: coefficient = -0.018, -0.045, -0.002, -0.006, p-value < 1%, 5%, 10%, respectively). This factor includes institutional ownership and audit committee directors with financial expertise. This result is contrary to theoretical claims (agency theory), expectations of the study. However, it is in line with some prior studies. With regards to institutional ownership, institutional investors may be passive owners which could reduce the efficiency of monitoring when they have short-term goals (Al-Fayoumi et al., 2010; Cheng & Reitenga, 2009). Institutional investors may have an entrenchment effect in order to exploit the minority shareholders (Ruiz-Mallorquí & Santana Martín, 2009), which reflects their focus on short-term gains. They do not have an interest in maintaining control over the management. With respect to an audit committee director with financial expertise, few studies examine the relationship between audit committee expertise, firm performance and firm value. A possible explanation is that institutional investors may have power which influences the effectiveness of the audit committee director with financial expertise. However, this result should be taken with caution as the variance of one variable appears to influence the other variable.

Expertise factor appears to show a positive association with firm performance in UAE (LN_ROA, LN_ROE: coefficient = 0.012; 0.020, p-value < 10%, respectively). A similar explanation in GCC countries may be applicable here.

There is a negative association between board composition factor and firm value in Bahrain, Qatar and Oman (LN_Tobin's Q: coefficient = -0.066, -0.244, -0.170, p-value < 1%, 5% respectively). This factor also shows a negative and significant association with firm performance in UAE and Qatar (LN_ROA: coefficient = -0.016, -0.015, p-value < 1%, 5%, respectively). (LN_ROE: coefficient = -0.025, -0.010, p-value < 10% respectively). This factor includes CEO duality and female directors on the board. This result is in line with agency theory perspective, the study expectation and the majority of other studies. With regard to the CEO duality, the role of

CEO duality has a negative influence on the firm's performance (Lipton & Lorsch, 1992; Jensen, 1993). That power would be concentrated in the hands of CEOs where they hold a position as chairman. With respect to female directors on the board, a number of studies claim that the involvement of female directors has a negative effect on firm performance and firm value (Adams and Ferreira, 2009; Smith et al., 2006) due to a lack of qualifications and skills needed for directorship.

With regard to non-significant relationships, the independence factor shows a positive sign but non-significant association with firm value. Family factor mostly indicating a negative association with firm performance and firm value but the relationship is not significant. It is worth noting that sometimes some factors appear to have a different sign under firm performance and the firm value indicating different influences for each factor or variable on firm performance and firm value. Firm performers refers to the short-term firm performance where firm value refers to long-term performance. The board factor has a negative sign with firm value and a positive sign with firm performance in UAE but these results are non-significant.

Control Variables

Leverage has a positive association with firm value in UAE and Saudi Arabia. In addition, leverage indicates a positive relationship with firm performance (ln_ROA) in Bahrain, and (Ln_ROE) in Qatar and Saudi Arabia. This result is in line with some prior studies: Haniffa & Hudaib (2006) Jang & Park (2011) and Anderson et al., (2003) document a positive association between leverage and firm performance and firm value.

There is a positive relationship between growth and firm value in Bahrain. Furthermore, growth has a linear relationship with firm performance in Bahrain and Qatar. This finding is in line with the empirical findings. Peng (2004) McKelvie & Wiklund (2010), and Dalton et al., (2010) find a positive association between a company's sale growth rate and the firm profitability.

Firm size appears to indicate a nonlinear relationship with firm value in Bahrain and Qatar. In addition, firm size has a positive association with firm performance in UAE, Bahrain, Oman. This result is consistent with findings from prior studies. Haniffa & Hudaib (2006) find a negative relationship between firm size and Tobin Q; where Haniffa & Hudaib (2006) report a positive relationship between ROA and firm size.

B. Model 2

State ownership has a positive association with firm performance in Saudi Arabia (LN_ROA, LN_ROE: coefficient = 0.012; 0.020, p-value < 10%, respectively) and firm value (LN_Tobin's Q: coefficient = 2.319; 0.302, p-value less than both five and ten percent) in Saudi Arabia. This result is contrary to agency theory and study expectation but is in line with some prior studies. Blanchard & Shleifer (2000) claim that government-owned firms are successful and perform as well as other companies. In addition, government-owned firms might have strong financial market incentives to encourage and ensure a successful performance (Sun et al., 2002; Chen, 1998). This study also runs the concentration ownership model and curvilinear of ownership model but the results are non-significant with firm performance and firm value in Saudi Arabia.

What is of note is that CEOD has a negative association with firm value in UAE (LN_Tobin's Q: coefficient = -8.152, p-value < 1%). This result is consistent with agency theory, the expectation of the study and the majority of prior studies (Haniffa & Hudaib, 2006; Ho & Williams, 2003). This result also indicates that the market and investors expect that the long-term performance, growth, and opportunities for investment will be lower when the CEO has a Chairman on the board. However, this result is reverse with firm performance in UAE (LN_ROA, LN_ROE: coefficient = 0.512; 0.803, p-value < 10%, respectively). These results are contrary to agency theory, the prediction of the study, but they are in line with the new literature's argument of the positive influence of CEOD. This literature calls CEOD as a CEO with dual or combined leadership. The extant literature argues that having a CEO with combined leadership is important to achieve the overall corporate objectives to keep the organization in business, and to create a greater prospect for future opportunities in the domestic and global market. The board of directors and the CEO duality play an important role in the firm (Rutledge et al., 2016).

The independent director has a positive association with firm performance in Oman (LN_ROA, LN_ROE: coefficient = 0.062; 0.067, p-value < 5%, 10%, respectively). This supports the theoretical claim, the prediction, prior studies findings of firm performance. Gupta & Fields, (2009) and Rutledge et al., (2016) find a linear relationship between independent directors and firm performance.

There is a negative relationship between royal family members on the board and firm value in Bahrain, Qatar, and Oman (LN_Tobin's Q: coefficient = -1.497; -4.196; -3.653; P-value < 1%,

5%). A negative relationship is observed between royal family members on the board and firm performance in Qatar (LN_ROA, LN_ROE: coefficient = -0.413; -0.056; P-value < 5%, 10%). This result is in line with a theoretical claim (agency theory) and empirical evidence but contrary to the research question expectation. The literature argues that the power of a royal family member may trigger the agency conflict between the board and management (type I) or between the controlling shareholders and minority shareholders (type II). They also argue that to some extent, the board members of royal family members serve to protect these members' personal interests and the interests of related companies. In addition, the business interests of politically connected companies are protected by the monarchy as management will not interfere with decisions made by powerful ruling family (Hertog, 2012). This leads to lower firm performance and firm value (Boubakri et al., 2008; Fan et al., 2007).

A negative significant relationship is seen between a large board size and firm value in UAE, Qatar and Oman (LN_Tobin's Q: coefficient = -0.065; -0.256; -0.065; p-value < 10%, 5%) where a positive association is observed between the large board and firm performance in UAE (LN_ROA, LN_ROE: coefficient = 0.012; 0.018, p-value < 5%, 10%, respectively). There is a negative association between the large board and firm value indicating that markets and investors expect a negative influence on firm value (investment, growth and long-term performance). However, the board size has a good influence on short-term performance in UAE. These results are consistent with findings of Haniffa & Hudaib (2006) who conclude that there are different effects of board size on firm performance and firm value.

The interaction term between royal family members and Big-4 audit firms has a positive influence on firm value in Qatar and Saudi Arabia. There is also a positive result between the interaction and firm performance in Bahrain and Qatar. This result is in the line with the theoretical claim (agency theory), the expectation of the study and prior studies. The extant literature argues that the firms tend to appoint political members to access more benefits such as their knowledge, expertise in government procedures and connections with government to get advantage over their competitors (Agrawal & Knoeber, 2001). Another explanation is that royals may use their influence or power to secure the expertise of Big 4 audit firms. However, the relationship between this interaction and firm performance appears to show the reverse in UAE.

With respect to the non-significant relationship, family ownership and institutional ownership has no significant relationship with firm performance and firm value in Saudi Arabia. In most

countries, the independent directors exhibit a positive association with firm value but the result is reverse under firm performance measure, for instance UAE. Even though the relationship is not statistically significant, the Big-4 indicates a positive sign with firm performance and firm value in Bahrain, Qatar, Oman and Saudi Arabia. The non significant relationship between firm performance or firm value with these individual CG variables indicates that these variables do not have any influence on firm performance and firm value in these countries. Similar to other models, the study first conducts OLS regression and panel data regression. Most of these significant variables disappear with the study control for endogeneity problem.

Control Variables

Leverage appears to show a positive association with firm value in Bahrain and Qatar. In addition, leverage also shows a positive association with firm performance Bahrain, Qatar and Saudi Arabia. Haniffa & Hudaib (2006) Jang & Park (2011) and Anderson et al., (2003) document a positive association between leverage, firm performance and firm value.

Growth has a positive association between the firm's value in Bahrain but this relationship is reverse in Qatar. However, growth has a positive association with firm performance in Qatar. This result supports prior studies (Peng, 2004; McKelvie & Wiklund, 2010).

Firm size exhibits a positive association with firm value in Bahrain and Qatar whereas the relationship between these variables is reverse under firm performance measure. Of note, firm size exhibits a positive association with firm performance in UAE. These results here are consistent with findings of Haniffa & Hudaib (2006) who conclude different effects of firm size on firm performance and firm value.

The Big-4 variable appears to show a positive association with firm performance and firm value. This result is consistent with agency theory, the expectation of the study and the majority of prior studies. In weak investor protection environments firms which hire one of the Big-4 audit firms appear to have a better performance record (Rodriguez & Alegria, 2012; Choi et al., 2008; Choi & Wong, 2007; Niskanen et al, 2011) because Big-4 audit firms are concerned about their brand and reputation (Francis et al., 1999; Kim et al., 2004; Wiwanya & Aim, 2008).

The study breaks down the sample of UAE into Abu Dhabi stock market and Dubai stock market. This finding gives evidence for more understanding if the result of the effect of CG on firm performance and firm value in one market has driven the outcome of the UAE due to differences as explained in the methodology chapter (4) . Tables 6.17, 6.19 present the findings of Abu Dhabi and Dubai.

6.3.C. CG, Firm Performance and Firm Value: Abu Dhabi and Dubai

A. Model 1

Government factor indicates a positive association with firm value in Dubai (ln_Tobin's Q: coefficient = 0.586, p-value < 1%). This result indicates that the market and investors expecting government ownership and government officials on the board can increase firm value in Abu Dhabi. In addition, the result in the individual countries can be applied here. Interestingly, government factor has a negative and significant association with firm performance in Dubai (ln_ROA and ln_ROE: coefficient = -0.110, -0.146, p-value < 5%, 10%, respectively). This result supports some prior studies that government ownership lowers the firm's performance due to selecting directors based on political and social goals rather than their experiences (Saleh et al., 2009).

Effectiveness factor has a negative association with firm value in Abu Dhabi (ln_Tobin's Q: coefficient = -0.171, p-value < 5%). In addition, this factor has a non-linear relationship with firm performance in Dubai (ln_ROA and ln_ROE: coefficient = -0.021, -0.045, p-value < 10%, 5%, respectively). A similar explanation to individual countries may apply here.

Expertise factor shows a positive association with firm value in Dubai (ln_Tobin's Q: coefficient = 0.533, p-value < 1%). Furthermore, this factor also indicates a positive relationship with firm performance (ln_ROA and ln_ROE: coefficient = -0.021, -0.045, p-value < 10%, 5%, respectively). A similar explanation in GCC countries can be applied here. This result provides evidence that royal family members on the board and Big-4 audit firms play an important role which leads to the enhancement of firm performance and firm value.

Most of the factors have non-significant association with firm performance and firm value. For instance, independence factor has a positive sign with firm value but negative sign with firm performance in Abu Dhabi and Dubai and these results are nonsignificant. What is of note is that, the results are non-significant but the family factor has a negative sign with firm performance and firm value.

With regard to control variable, firm size indicates a positive association with firm performance. Similar explanation to individual countries may also be applicable.

B. Model 2

CEOD has a negative association with firm value in Abu Dhabi and Dubai (ln_Tobin's Q: coefficient = -8.307; -77.783, p-value < 1%, 10% respectively). However, the reverse relationship is observed between CEOD and firm performance in Dubai (ln_ROA and ln_ROE: coefficient = 11.560, 0.951, p-value < 10% respectively) . A similar explanation to UAE may also apply.

Royal members on the board appear to show a positive association with firm value in Dubai (ln_Tobin's Q: coefficient = 8.490, p-value < 1%). This result is in line with the research expectations. According to Algamdi (2012), the presence of ruling family members on a board increases firm performance as they may expand the company's competitive environment and therefore benefit the companies through networking and their privileges, leading to better performance. This supports the majority of the literature of politically connected firms (Faccio et al., 2006; Fisman, 2001; Johnson & Mitton, 2003; Charumilind et al., 2006; Leuz & Oberholzer-Gee, 2006; Siegel, 2005).

Large board size shows a negative association with firm value in Abu Dhabi (ln_Tobin's Q: coefficient = -0.065, p-value < 1%) where the is observed between the size of large boards and firm performance in Abu Dhabi and Dubai (ln_ROA: coefficient = 0.013, 0.018, p-value < 5%, 1%, respectively) and (ln_ROE: coefficient = 0.019, 0.030, p-value < 5%, 10%, respectively). A similar explanation to individual countries may also be applicable in this respect.

The interaction term between royal family members and Big 4 indicates a positive association with firm value in Dubai (ln_Tobin's Q: coefficient = 9.662, p-value < 5 %). However, the relationship between this interaction and firm performance is the reverse in Abu Dhabi and Dubai

(ln_ROA: coefficient = -0.384, -1.612, p-value < 10%, 1%, respectively) and (ln_ROE: coefficient = -0.479, -1.479, p-value < 5%, 1%, respectively). A similar explanation to individual countries can may applybe applied here.

Control Variables

Firm size shows a positive association with firm performance in Abu Dhabi. This result is consistent with prior studies by Vijayakumar & Tamizhselvan (2010), Lee (2009), Becker-Blease et al. (2010), Velnampy (2006), and Banchuenvijit (2012).

Big-4 appears to show an association with firm value and firm performance in Abu Dhabi. A similar explanation to individual countries is applicable in this instance.

6.4. Robustness Test

To check the robustness of the results, the study conducts several additional tests. First, the study runs regression models using a different measurement of firm performance (Adj ROA) and firm value (Adj Tobin's Q). These results are shown in the Appendix C, supports the main findings of ln_Tobin's Q and ln_ROA. Similar to question one, the study runs the main model again using some additional variables such as period, corruption and minority shareholders. These results remain unchanged with these variables but period, corruption and minority shareholders are not statistically significant with firm performance and firm value using the GMM regression approach. It is worth noting that the full results of these variables under OLS, panel data, and GMM regressions are shown in Appendix C.

6.5. Discussion:

The study utilises two models (model one is based on PAC and model two is based on individual CG variables). Some point can be highlightedL:

(1)the main observations are that the results in both models are inconclusive and there needs to be further study in this area. Specifically, the results of model one do not support the results of model two. Model one results reveal that royal family members on the board and Big-4 have a positive influence on firm performance and firm value. However, the results of these variables, namely royal family members, Big-4 and the interaction term between these variables are non-significant with firm performance and firm value. A possible explanation is that under PCA the

variance of one variable influences another variable. Thus, this observation indicates that the results from PCA may not give a clear picture. However, if the study does not look at the support of finding under these two models the study may tell a more interesting story. According to model one, CG factor has a similar impact on long term and short term firm performance. In addition, royal family influence Big4 audit firms to use their expertise to enhance firm performance and firm value. Under the model two, the study observes, the U-Shaped relationship between state ownership, firm performance and firm value. This result indicates that the firm value increases in concentration at a low level of state ownership. The firm value reaches a minimum when ownership concentration is at a high level.

(2) Examining results of an individual country in model two, royal family members on the board reduce the firm's performance and firm value in most GCC countries. However, royal family members on the board may have a good influence on Big-4 audit firms to utilise their expertise further leading to better firm performance and firm value. Regarding Abu Dhabi and Dubai, the results from the two models are mostly similar to the main results of UAE. In addition, there are few differences in association between CG, firm performance and firm value. For instance, board size and CEO D have a different influence on firm performance and firm value. These result in both sides (positive and negative signs) being supported in the literature. As explained earlier in the methodology chapter, market measures refer to the investment, growth and long-term performance where accounting measures reflect the short-term performance. Tobin's Q is a proxy for growth opportunities (Boon et al., 2007; Link et al., 2008; Lehn et al., 2008). These results are consistent with findings of Haniffa & Hudaib (2006) who conclude different effects of CG attributes and ownership on firm performance and firm value. For instance, the results of interaction term between royal family members and Big 4 has a negative influence on firm performance but the relationship is reverse under firm value in UAE, Abu Dhabi and Dubai.

(3) The independence factor in model one and independent directors in model two do not have a significant relationship with firm performance and firm value, thus, policymakers should strengthen the role of independent directors through the improvement and restriction of requirements and procedures of nominating independent directors on the board. Independent directors are some of the most important directors on the board as they can be more accountable than an executive (Fama, 1980; Sonnenfeld, 2002) due to their independent judgment of board decisions (Cadbury report, 1992; Chhaochharia & Grinstein, 2009).

(4) Interestingly, there is a significant difference in the result between Pooled OLS regression, Panel Data regression and GMM regression. GMM regression is an advanced statistical technique for dealing with econometric problems, such as endogeneity. Thus, counting for the endogeneity problem is important in order to analyze the relationship between CG variables, firm performance and firm value.

6.4. Conclusion

This chapter present the results and evidence of the effect of CG on a firm's performance and firm value in GCC countries. The structure of the chapter is as follows: Section 6.1 offeres descriptive statistic and correlation matrix of the data; Section 6.2 discusses the regression results showing the relationship between dependent and independent variables in GCC countries and an individual country; Section 6.3 provides a brief about robustness tests for GCC countries and individual countries: while Section 6.4 offeres a discussion of the results. The main observations are that the results of both models are inconclusive and warranting further investigation. However, if the study looks at the support of findings under these two models, the study may still tell an interesting story. With respect to individual countries, there are few differences in the association between firm performance and firm value. These results indicate that firm value refer to investment, growth and long-term performance where accounting measures reflect the short-term performance. Thus, some corporate governance variables have a different effect on firm performance and firm value. Finally, the study offers some recommendations to policymakers with regard to independent directors from the analysis from Model 1 &2. The following chapter provides the analysis and results of research question three (royal family and firm performance).

Table 6.1. Descriptive statistics- CG and Firm Performance and Firm Value- GCC Countries

Variable	Mean	Median	Std. Dev.	Min	Max
TOBIN'SQ	1.542	1.274	0.951	0.283	4.657
ROA	0.063	0.054	0.073	-0.090	0.264
ROE	0.108	0.099	0.120	-0.197	0.376
FAMC	0.141	0.065	0.190	0	0.991
STATC	0.138	0	0.213	0	0.893
INSTITC	0.214	0.115	0.256	0	1
BSIZE	7.882	8	1.693	4	18
FEMALE	0.002	0	0.023	0	0.571
RELATIVE	0.116	0	0.188	0	1
IND	0.595	0.571	0.270	0	1
CEOD	0.074	0	0.263	0	1
BMEET	5.634	5	2.025	1	19
ROYAL	0.027	0	0.053	0	0.2
GOV	0.013	0	0.041	0	0.285
AUDITSIZE	3.300	3	0.804	0	6
AUDITIND	0.628	0.666	0.342	0	1
AUDITMEET	4.659	4	2.213	0	21
AUDITEX	0.280	0.333	0.098	0	0.5
BIG4	0.610	1	0.487	0	1
LEVERAGE	0.380	0.350	0.222	0.068	0.820
LN_SIZE	12.691	12.609	1.662	10.100	16.078
GROWTH	0.029	0.018	0.145	-0.441	0.458

N=1,096

Notes: *TOBIN'S Q* is market value measure. *ROA*, is return on assets and *ROE* is return on equity. *FAMC* is the percentage of family ownership. *STATC* is the percentage of state ownership. *INSTITC* is the percentage of institutional ownership. *BSIZE* is board size. *FEMALE* is the ratio of female to the total board directors. *RELATIVE* is the ratio of relative to the total board of directors. *IND* is the ratio of independent director to the total board of directors. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *BMEET* is the number board of meetings per year. *ROYAL* is the ratio of royal family member to the total board of directors. *GOV* is the ratio of government official to the total directors. *AUDITSIZE* is the number of directors on the audit committee. *AUDITIND* is the ratio of independent director in audit committee. *AUDITMEET* is the number of audit committee meeting per year. *AUDITEX* is the ratio of member with financial or accounting expertise to the total director. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise. *LEVEVERGE* is total liabilities divided by total assets. *LN_SIZE* is the natural logarithm of the total assets. *GROWTH* is change in net sales divided by total assets.

Table 6.2. Correlation Martrix-CG and firm performance and firm value-GCC countries

	TOBIN'S Q	ROA	ROE	FAMC	STATC	INSTITC	BSIZE	FEMALE	RELATIVE	IND
TOBIN'S Q	1									
ROA	0.371*	1								
ROE	0.274*	0.798*	1							
FAMC	0.056	0.096*	0.137*	1						
STATC	0.022	0.038	0.030	-0.287*	1					
INSTITC	-0.112*	-0.043	0.022	-0.213*	-0.249*	1				
BSIZE	-0.048	0.087*	0.075*	-0.183*	0.067*	-0.127*	1			
FEMALE	-0.042	0.020	0.000	0.022	0.068*	-0.044	0.010	1		
RELATIVE	0.052	0.011	0.016	0.378*	-0.229*	-0.104*	-0.096*	-0.016	1	
IND	-0.059*	-0.135*	-0.067*	-0.024	-0.087*	0.168*	-0.198*	-0.060*	-0.078*	1
CEOD	-0.004	-0.072*	-0.100*	0.051	-0.063*	-0.087*	0.034	0.068*	0.076*	-0.068*
BMEET	-0.042	-0.139*	-0.068*	-0.067*	0.211*	-0.057	0.002	-0.040	-0.007	0.083*
ROYAL	-0.045	0.080*	0.066*	0.033	-0.003	-0.055	0.076*	-0.020	0.111*	-0.108*
GOV	-0.019	0.063*	0.120*	-0.139*	0.267*	-0.008	0.006	0.024	-0.126*	0.019
AUDITSIZE	-0.052	-0.048	-0.016	-0.006	0.081*	0.029	0.158*	0.076*	-0.044	0.130*
AUDITIND	-0.069*	-0.154*	-0.092*	0.073*	-0.123*	0.190*	-0.134*	-0.064*	0.007	0.681*
AUDITMEET	-0.015	-0.053	0.000	-0.047	0.174*	-0.078*	0.090*	-0.075*	-0.021	0.096*
AUDITEX	0.085*	-0.003	0.024	-0.022	-0.131*	-0.053	-0.056	-0.112*	-0.021	0.059*
BIG4	-0.022	0.084*	0.136*	-0.093*	0.132*	0.033	0.103*	-0.000	-0.071*	-0.046
LEVERAGE	-0.115*	-0.139*	0.105*	0.095*	-0.020	0.176*	-0.050	-0.038	0.013	0.096*
LN_SIZE	-0.013	-0.007	-0.054	-0.076*	0.160*	-0.426*	0.279*	0.030	0.065*	-0.314*
GROWTH	-0.076*	0.175*	0.166*	0.050	-0.060*	0.018	0.005	-0.008	0.022	-0.031

CONTINUED

	CEOD	BMEET	ROYAL	GOV	AUDITS~E	AUDITIND	AUDITMEET	AUDITEX	BIG4	LEVERAGE	SIZE	GROWTH
TOBIN'S Q												
ROA												
ROE												
FAMC												
STATC												
INSTITC												
BSIZE												
FEMALE												
RELATIVE												
IND												
CEOD	1											
BMEET	-0.006	1										
ROYAL	0.066*	-0.033	1									
GOV	-0.081*	0.088*	-0.004	1								
AUDITSIZE	-0.019	0.157*	-0.063*	0.054	1							
AUDITIND	-0.059*	0.062*	-0.035	-0.002	0.102*	1						
AUDITMEET	-0.020	0.311*	-0.077*	0.047	0.253*	0.083*	1					
AUDITEX	-0.025	-0.083*	-0.046	0.118*	-0.163*	0.146*	0.187*	1				
BIG4	-0.035	-0.007	0.103*	0.092*	0.019	-0.043	0.009	0.107*	1			
LEVERAGE	-0.101*	0.113*	-0.084*	0.042 *	0.111 *	0.090*	0.154*	-0.007	0.137*	1		
LN SIZE	0.079*	0.053	0.158*	0.065*	0.003	-0.281*	0.078*	0.03	0.068*	-0.0304	1	
GROWTH	-0.038	-0.028	-0.040	-0.006	0.075*	-0.055	0.036	-0.005	0.090*	0.117*	-0.035	1

Notes: *TOBIN'S Q* is market value measure. *ROA* is return on assets and *ROE* is return on equity. *FAMC* is the percentage of family ownership. *STATC* is the percentage of state ownership. *INSTITC* is the percentage of institutional ownership. *BSIZE* is the board size. *FEMALE* is the ratio of female to the total board directors. *RELATIVE* is the ratio of relative to the total board of directors. *IND* is the ratio of independent director to the total board of directors. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *BMEET* is the number board of meetings per year. *ROYAL* is the ratio of royal family member to the total board of directors. *GOV* is the ratio of government official to the total directors. *AUDITSIZE* is the number of directors on the audit committee. *AUDITIND* is the ratio of independent director in audit committee. *AUDITMEET* is the number of audit committee meeting per year. *AUDITEX* is the ratio of member with financial or accounting expertise to the total director. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise. *LEVEVERGE* is calculated as total liabilities divided by total assets. *LN SIZE* is the natural logarithm of the total assets. *GROWTH* is change in net sales divided by total assets.

Table 6.3. Univariate Analysis-T-test- GCC Countries				
Variables	ROA	t-statistics	ROE	t-statistics
Royal high	0.08	-3.04**	0.10	-2.95**
Royal low	0.06		0.13	

Table 6.4. A.GMM Regression –CG, Firm Performance and Firm Value- Model 1-GCC Countries

	Expected sign	LN_TOBIN'SQ	LN_ROA	LN_ROE
_CONS		-0.126 -3.42	0.002 -0.22	0.073 -0.35
INDEPENDENCE FACTOR	+	-0.032 -0.07	-0.001 0	0 0
FAMILY FACTOR	+	-0.04 -0.13	-0.001 -0.01	0.007 -0.01
BOARD FACTOR	+	-0.059 -0.04	0.001 0	0.001 0
GOVERNMENT FACTOR	-	0.029 -0.09	0 0	-0.005 -0.01
EFFECTIVENESS FACTOR	+	-0.041 -0.06	0.001 0	0.004 0
EXPERTISE FACTOR	+	-0.022 -0.08	0.006** 0	0.007* 0
BOARD COMPOSITION FACTOR	-	-0.049 -0.04	-0.002 0	-0.001 0
LN_GROWTH	+	-0.052 -0.27	0.013 -0.02	0.002 -0.04
LN_LEVERAGE	-	-0.098 -0.76	-0.057 -0.05	0.035 -0.07
LN_SIZE	+	0.029 -0.26	0.013 -0.02	0.014 -0.03
L.LN_TOBINQ		-0.028 -0.03		
L.LN_ROA			-0.164** -0.08	
L.LN_ROE				-0.046 -0.1
YEAR DUMMY		Yes	Yes	Yes
INDUSTRY DUMMY		Yes	Yes	Yes
COUNTRY DUMMY		Yes	Yes	Yes
N		408	408	408

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_TOBIN'S Q is the natural logarithm of market value measure. *LN_ROA*, is the natural logarithm of return on assets and *LN_ROE* is the natural logarithm of return on equity. *INDEPENDENCE FACTOR* includes independent of the board of directors and independent of the audit committee. *FAMILY FACTOR* includes family ownership and relatives. *BOARD FACTOR* includes of board size, board meeting, audit committee size and audit committee meeting. *GOVERNMENT FACTOR* includes government ownership and government officials on the board. *EFFECTIVENESS FACTOR* includes audit committee expertise and institutional ownership. *EXPERTISE FACTOR* includes royal family members on the board and Big 4 audit committee. *BOARD COMPOSITION FACTOR* includes CEO duality and female directors on the board. *LN_GROWTH* is the natural logarithm of change in net sales divided by total assets. *LN_LEVERAGE* is the natural logarithm of total liabilities divided by total assets. *LN_SIZE* is the natural logarithm of the total assets.

Table 6.4. B.GMM Regression –CG and Firm Performance and Firm Value Model 2- GCC Countries

	Expected sign	A			B			C		
		LN TOBIN'SQ	LN ROA	LN ROE	LN TOBIN'SQ	LN ROA	LN ROE	LN TOBIN'SQ	LN ROA	LN ROE
_CONS		1.969	-0.148	-0.193	1.255	-0.179	-0.295	0.668	-0.202	-0.327
		-3.51	-0.22	-0.34	-3.43	-0.23	-0.35	-3.81	-0.25	-0.39
FAMC_DUMMY	+	-0.254	0.010**	0.015**						
		-0.15	0	-0.01						
FAMC	+				0.77	-0.039	-0.082			
					-2.74	-0.08	-0.1			
FAMC2	+				0.313	0.160*	0.363***			
					-4.06	-0.09	-0.12			
STATC_DUMMY	-	-0.228	-0.002	-0.009						
		-0.16	-0.01	-0.01						
STATC	-				2.685**	-0.081	-0.395***			
					-1.1	-0.06	-0.13			
STATC2	-				-5.871**	-0.384**	0.103			
					-2.37	-0.17	-0.35			
INSTITC_DUMMY	+	-0.137	0.003	0						
		-0.17	-0.01	-0.01						
INSTITC	+				1.668	-0.007	0.11			
					-1.32	-0.07	-0.09			
INSTITC2	+				-0.663	0.381	-0.149			
					-6.71	-0.35	-0.49	-0.054		
OWN	+							0.206***	0.011	0.008
		-0.03			-0.03			-0.03	-0.01	-0.01
CEOD	-	-0.117	-0.002	-0.002	-0.134	-0.004	-0.005	-0.024	-0.003	-0.003
		-0.19	-0.01	-0.01	-0.18	-0.01	-0.01	-0.2	-0.01	-0.01
IND	+	-0.198	-0.008	-0.01	-0.299	-0.006	-0.005	-0.12	-0.003	-0.003
		-0.36	-0.01	-0.01	-0.34	-0.01	-0.01	-0.38	-0.01	-0.02
ROYAL	+	0.661	0.028	0.132	-0.11	0.018	0.083	-1.726	0.04	0.165
		-2.71	-0.13	-0.16	-2.71	-0.12	-0.15	-2.59	-0.15	-0.19
LN_BSIZE	+	-0.643	0.056*	0.100**	-0.86	0.064**	0.129**	-0.499	0.058*	0.101**
		-0.73	-0.03	-0.04	-0.68	-0.03	-0.05	-0.7	-0.03	-0.05
ROYAL_BIG4	+	0.099	0	-0.012	0.141	0.002	-0.005	0.112	-0.004	-0.018

		-0.26	-0.01	-0.01	-0.27	-0.01	-0.01	-0.29	-0.01	-0.01
LN_LEVERAGE	-	-0.081	-0.054	0.035	0.04	-0.069	0.007	-0.524	-0.028	0.074
		-0.76	-0.05	-0.07	-0.76	-0.05	-0.07	-0.81	-0.05	-0.08
LN_GROWTH	+	0.015	0.014	0.004	0.069	0.023	0.021	-0.188	0.009	-0.008
		-0.27	-0.02	-0.04	-0.27	-0.02	-0.03	-0.29	-0.02	-0.04
LN_SIZE	+	0.025	0.013	0.014	0.096	0.014	0.015	0.085	0.015	0.022
		-0.24	-0.02	-0.03	-0.23	-0.02	-0.03	-0.27	-0.02	-0.03
BIG4	+	-0.119	0.006	0.005	-0.111	0.005	0.004	-0.083	0.011*	0.011
		-0.16	0	-0.01	-0.16	0	-0.01	-0.21	-0.01	-0.01
L.LN_TOBIN'SQ		-0.03			-0.017			-0.03		
L.LN_ROA			-0.167**			-0.148*			-0.117	
			-0.08			-0.08			-0.09	
L.LN_ROE				-0.053			-0.029			0.013
				-0.1			-0.1			-0.11
YEAR DUMMY	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
INDUSTRY DUMMY	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
COUNTRY DUMMY	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N		403	403	403	408	408	408	343	343	343

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_TOBIN'S Q is natural logarithm of market value measure. LN_ROA is natural logarithm of return on assets. LN_ROE is natural logarithm of return on equity. FAMC_DUMMY is a dummy variable of family ownership. STATC_DUMMY is a dummy variable of state ownership. INSTITC_DUMMY is a dummy variable of institutional ownership. FAMC, STATC, and INSTATIC are the percentage of family ownership, state ownership and institutional ownership respectively. FAMC2, STATC2, INSTATIC2 are the square term of family ownership, state ownership and institutional ownership respectively. OWN is the ownership concentration. CEOD a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. IND is the ratio of independent director to the total directors. ROYAL is the ratio of royal family member to the total directors. LN_BSIZE is natural logarithm of the board size. ROYAL_BIG4 is interaction term between royal family members on the board and big 4 audit firm. LN_LEVERAGE is the natural logarithm of total liabilities divided by total assets. LN_GROWTH is the natural logarithm of the annual change in net sales divided by average total assets. LN_SIZE is the natural logarithm of total assets. BIG4 is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table 6.5.A. GMM Regression. CG and (LN_TOBIN'S Q)- Firm Value- MODEL 1- Individual Country GMM								
	Expected sign	UAE	UAE AB	UAE DU	BH	Qatar	Oman	SA
CONS		1.337	1.513	-0.326	-0.783**	3.628**	0.173	-0.165
INDEPENDENCE FACTOR	+	-2.32	-2.36	-2.67	-0.32	-1.76	-0.18	-1.55
		0.092	0.100	0.058	0.230***	0.019	-0.033	0.135**
FAMILY FACTOR	+	-0.11	-0.12	-0.09	-0.06	-0.05	-0.03	-0.06
		-0.0342	-0.039	-0.115	0.073	0.039	-0.024	-0.051
BOARD FACTOR	+	-0.17	-0.17	-0.1	-0.12	-0.14	-0.05	-0.07
		-0.152	-0.150	-0.035	0.212***	0.107*	0.023	-0.023
GOVERNMENT FACTOR	-	-0.12	-0.12	-0.05	-0.05	-0.06	-0.04	-0.04
		-0.081	-0.089	0.586***	0.152*	0.319***	-0.023	0.078*
EFFECTIVENESS FACTOR	+	-0.18	-0.18	-0.19	-0.09	-0.1	-0.04	-0.09
		-0.176**	-0.171**	-0.104	-0.170*	-0.216***	0.021	-0.171***
EXPERTISE FACTOR	+	-0.08	-0.08	-0.08	-0.1	-0.06	-0.03	-0.06
		-0.010	-0.010	0.533***	0.007	-0.008	-0.002	-0.028
BOARD COMPOSITION FACTOR	-	-0.13	-0.13	-0.06	-0.05	-0.04	-0.04	-0.05
		-0.223	-0.227	0.005	-0.066**	-0.244***	-0.170**	-0.031
LN LEVERAGE	-	-0.15	-0.15	-0.12	-0.03	-0.06	-0.08	-0.06
		-0.110	-0.130	-0.573	3.008***	0.730	0.260	0.199
LN GROWTH	+	-0.65	-0.66	-0.64	-0.85	-0.45	-0.26	-0.57
		0.001	-0.022	-0.064	0.714*	-0.302	-0.374	-0.123
LN_SIZE	+	-0.55	-0.55	-0.2	-0.4	-0.27	-0.27	-0.42
		-0.115	-0.124	0.074	-0.014***	-0.288**	-0.005	0.046
L.LN_TOBIN'SQ		-0.15	-0.16	-0.21	0	-0.12	0	-0.12
		-0.013	-0.016	0.101	-0.070	0.386***	0.380	0.077
		-0.07	-0.07	-0.15	-0.1	-0.1	-0.27	-0.05
N		129	128	45	48	60	228	315

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_TOBIN'S Q is natural logarithm of market value measure. INDEPENDENCE FACTOR includes independent of the board of directors and independent of the audit committee. FAMILY FACTOR includes family ownership and relatives. BOARD FACTOR includes of board size, board meeting, audit committee size and audit committee meeting. GOVERNMENT FACTOR includes government ownership and government officials on the board. EFFECTIVENESS FACTOR includes audit committee expertise and institutional ownership. EXPERTISE FACTOR includes royal family members on the board and Big 4 audit committee. BOARD COMPOSITION FACTOR includes CEO duality and female directors on the board. LN_LEVEVERGE is the natural logarithm of total liabilities divided by total assets. LN_GROWTH is the natural logarithm of change in net sales divided by total assets. LN_SIZE is the natural logarithm of the total assets.

Table 6.5.B. GMM Regression. CG and (LN_ROA)- Firm Performance- MODEL 1- Individual Country

	Expected sign	UAE	UAE AB	UAE DU	BH	Qatar	Oman	SA
_CONS		-0.385	-0.398	-0.235	0.130	0.456***	0.180***	0.318*
INDEPENDENCE FACTOR	+	-0.26	-0.25	-0.15	-0.08	-0.14	-0.02	-0.16
		0.001	-0.000	-0.00	0.025*	-0.001	0	0.003
FAMILY FACTOR	+	-0.01	-0.01	-0.02	-0.01	0	0	0
		-0.010	-0.009	-0.023	0.016	0.003	-0.010	-0.008
BOARD FACTOR	+	-0.01	-0.01	-0.02	-0.02	-0.01	-0.01	-0.01
		0.001	0.001	-0.003	0.003	0.007**	-0.000	0.001
GOVERNMENT FACTOR	-	0	0	-0.01	-0.01	0	-0.01	0
		-0.028*	-0.026	-0.110**	0.014*	0.009	-0.008	0.012*
EFFECTIVENESS FACTOR	+	-0.02	-0.02	-0.05	-0.01	-0.01	-0.01	-0.01
		-0.009*	0.008	-0.021*	-0.013**	-0.015***	0.000	-0.007*
EXPERTISE FACTOR	+	-0.01	-0.01	-0.01	-0.01	0	0	0
		0.012*	0.012*	-0.010	-0.003	-0.000	-0.011	0.005
BOARD COMPOSITION FACTOR	-	-0.01	-0.01	-0.02	-0.01	-0.01	-0.01	0
		-0.016*	-0.015	-0.029	0.002	-0.015**	0.010	0.001
LN_LEVERAGE	-	-0.01	-0.01	-0.03	0	-0.01	-0.01	0
		0.126*	0.125	0.504***	-0.065	-0.033	-0.009	0.049
LN_GROWTH	+	-0.07	-0.08	-0.18	-0.13	-0.03	-0.03	-0.04
		-0.015	-0.013	0.038	0.329***	0.063**	0.029	0.027
LN_SIZE	+	-0.03	-0.03	-0.04	-0.09	-0.03	-0.03	-0.02
		0.034**	0.035**	0.011	-0.002**	-0.022**	0.001*	-0.012
L.LN_ROA		-0.02	-0.02	-0.01	0	-0.01	0	-0.01
		-0.106	-0.093	-0.075	0.084	0.031	-0.058	-0.101
		-0.15	-0.15	-0.18	-0.12	-0.03	-0.05	-0.07
N		129	128	45	48	60	228	315

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_ROA is natural logarithm of return on assets. *INDEPENDENCE FACTOR* includes independent of the board of directors and independent of the audit committee. *FAMILY FACTOR* includes family ownership and relatives. *BOARD FACTOR* includes of board size, board meeting, audit committee size and audit committee meeting. *GOVERNMENT FACTOR* includes government ownership and government officials on the board. *EFFECTIVENESS FACTOR* includes audit committee expertise and institutional ownership. *EXPERTISE FACTOR* includes royal family members on the board and Big 4 audit committee. *BOARD COMPOSITION FACTOR* includes board diversity and female directors on the board. *LN_LEVERAGE* is the natural logarithm of total liabilities divided by total assets. *LN_GROWTH* is the natural logarithm of change in net sales divided by total assets. *LN_SIZE* is the natural logarithm of the total assets.

Table 6.5.C. GMM Regression. CG and (LN ROE)- Firm Performance- MODEL 1- Individual Country

	Expected sign	UAE	UAE AB	UAE DU	BH	Qatar	Oman	SA
_CONS		-0.734	-0.756*	0.359	0.302***	0.595***	0.358***	0.702***
INDEPENDENCE FACTOR	+	-0.45	-0.44	-0.7	-0.07	-0.17	-0.06	-0.25
		0.011	0.008	0.013	0.017*	0.003	-0.010	-0.003
FAMILY FACTOR	+	-0.01	-0.01	-0.04	-0.02	-0.01	-0.01	0
		-0.003	-0.003	-0.045	0.012	0.003	-0.020	-0.005
BOARD FACTOR	+	-0.02	-0.02	-0.03	-0.01	-0.01	-0.01	-0.01
		0.000	0.002	0.010	0.007*	0.001*	-0.012	0.007**
GOVERNMENT FACTOR	-	-0.01	-0.01	-0.02	0	-0.01	-0.01	0
		-0.046*	-0.042	-0.146*	0.016**	0.003	0.003	0.004*
EFFECTIVENESS FACTOR	+	-0.03	-0.03	-0.11	-0.01	-0.01	-0.01	-0.01
		-0.018*	0.016	-0.045**	-0.002*	-0.021**	0.005	-0.006*
EXPERTISE FACTOR	+	-0.01	-0.01	-0.02	-0.01	-0.01	-0.01	0
		0.020*	0.02*	0.000	0.003	0.009	-0.006	0.002
BOARD COMPOSITION FACTOR	-	-0.01	-0.01	-0.04	-0.01	-0.01	-0.01	-0.01
		-0.025*	-0.024	-0.040	-0.003	-0.010*	0.028	0.003
LN_LEVERAGE	-	-0.02	-0.02	-0.06	0	-0.01	-0.02	0
		0.212	0.213	1.076***	0.032	0.250***	-0.056	0.213***
LN_GROWTH	+	-0.14	-0.15	-0.33	-0.11	-0.06	-0.06	-0.06
		-0.048	-0.047	0.093	0.158*	0.039*	0.085	0.042
LN_SIZE	+	-0.06	-0.07	-0.09	-0.09	-0.08	-0.11	-0.04
		0.052*	0.053*	-0.041	-0.002***	-0.032***	0.000	-0.042**
L.LN_ROE		-0.03	-0.03	-0.05	0	-0.01	0	-0.02
		-0.008	-0.000	-0.087	-0.147	0.079**	0.115	-0.018
		-0.16	-0.16	-0.15	-0.13	-0.04	-0.1	-0.1
N		129	128	45	48	60	228	315

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_ROE is natural logarithm of return on equity. INDEPENDENCE FACTOR includes independent of the board of directors and independent of the audit committee. FAMILY FACTOR includes family ownership and relatives. BOARD FACTOR includes of board size, board meeting, audit committee size and audit committee meeting. GOVERNMENT FACTOR includes government ownership and government officials on the board. EFFECTIVENESS FACTOR includes audit committee expertise and institutional ownership. EXPERTISE FACTOR includes royal family members on the board and Big 4 audit committee. BOARD COMPOSITION FACTOR includes CEO duality and female directors on the board. LN_LEVERAGE is the natural logarithm of total liabilities divided by total assets. LN_GROWTH is the natural logarithm of change in net sales divided by total assets. LN_SIZE is the natural logarithm of the total assets

Table 6.6.A. GMM Regression. CG and Firm Value(LN_TOBIN'S Q)- MODEL 2- Individual Country								
	Expected sign	UAE	UAE AB	UAE DU	BH	Qatar	Oman	SA
_CONS		-2.860	-2.661	-1.946	-0.998	14.397***	-1.178***	3.095
		-3	-3	-3.14	-1.72	-5.36		-1.96
FAMC_DUMMY	+							-0.562
								-0.52
STATC_DUMMY	-							2.029**
								-0.95
INSTITC_DUMMY	+							-0.455
								-0.17
CEOD	-	-8.152***	-8.307***	-77.783*	-0.742		-0.274*	
		-2.22	-2.22	-47.1	-1.37		-0.16	
IND	+	0.573	0.588	-0.595	-1.209	0.544	0.108	0.518
		-0.4	-0.4	-0.4	-0.17	-0.53	-0.24	-0.31
ROYAL	+	2.881	2.808	8.490***	-1.497***	-4.196**	-3.653***	-0.294
		-1.84	-1.82	-1.69	-0.41	-1.96	-1.27	-1.31
LN_BSIZE	+	-0.065*	-0.065*	-0.030	0.011	-0.256**	-0.064**	0.072
		-0.04	-0.04	-0.03	-0.02	-0.12	-0.03	-0.05
ROYAL_BIG4	+	2.703	2.713	9.662**	1.171	1.475***		1.806*
		-2.18	-2.21	-4.64	-2.97	-4.9		-0.92
LN_LEVERAGE	-	0.107	0.093	0.352	2.103***	1.121***	0.158	-0.392
		-0.44	-0.45	-0.37	-0.39	-0.43	-0.17	-0.39
LN_GROWTH	+	-0.238	-0.258	0.015	0.691***	-0.420*	-0.254	-0.103
		-0.41	-0.41	-0.13	-0.18	-0.22	-0.19	-0.25
LN_SIZE	+	-0.133	-0.143	0.249	-0.013***	-0.496**	-0.008	-0.035
		-0.14	-0.14	-0.23	0	-0.22	0	-0.13
BIG4	+	0.331*	0.325*		0.826	0.121	0.111	0.102
		-0.17	-0.17		-1.18	-0.12	-0.08	-0.1
L.LN_TOBIN'S Q		-0.103*	-0.105*	-0.216	-0.120***	0.162**	0.464	0.040
		-0.06	-0.06	-0.14	-0.04	-0.08	-0.29	-0.05
N		129	128	45	48	60	228	315

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_TOBIN'S Q is natural logarithm of market value measure. FAMC_DUMMY is a dummy variable of family ownership. STATC_DUMMY is a dummy variable of state ownership. INSTITC_DUMMY is a dummy variable of institutional ownership. CEOD a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. IND is the ratio of independent director to the total director. ROYAL is the ratio of royal family member to the total directors. LN_BSIZE is natural logarithm of the board size. ROYAL_BIG4 is interaction term between royal family members on the board and big 4 audit firm. LN_LEVERAGE is natural logarithm of total liabilities divided by total assets. LN_GROWTH is natural logarithm of the annual change in net sales divided by average total assets. LN_SIZE is natural logarithm of total assets. BIG4 is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise

Table 6.6.B. GMM Regression. CG and (LN ROA)- Firm Performance- MODEL 2- Individual Country

	Expected sign	UAE	UAE AB	UAE DU	BH	Qatar	Oman	SA
_CONS		-0.273	-0.283	-0.217	-0.284	1.553***	0.392***	0.176
FAMC_DUMMY	+	-0.39	-0.41	-0.45	-0.44	-0.34		-0.19
								0.087
								-0.06
STATC_DUMMY	-							0.302**
								-0.12
INSTITC_DUMMY	+							0.048
								-0.09
CEOD	-	0.512*	0.484	11.560*	0.278		-0.001	
		-0.29	-0.3	-6.83	-0.35		-0.02	
IND	+	-0.019	-0.017	-0.041	0.059	0.035	0.062***	0.002
		-0.02	-0.02	-0.06	-0.06	-0.05	-0.02	-0.02
ROYAL	+	-0.029	-0.051	-0.013	-0.121	-0.413***	0.126	0.138
		-0.08	-0.07	-0.34	-0.21	-0.16	-0.11	-0.14
LN_BSIZE	+	0.012*	0.013*	0.018***	0.001	0.012	-0.007	-0.001
		-0.01	-0.01	-0.01	-0.01	-0.01	0	0
ROYAL_BIG4	+	-0.380**	-0.384**	-1.612***	4.035***	0.295		0.122***
		-0.16	-0.16	-0.47	-1.24	-0.49		-0.04
LN_LEVERAGE	-	0.085	0.085	0.401***	0.004	0.046	-0.009	-0.012
		-0.06	-0.06	-0.15	-0.12	-0.04	-0.02	-0.03
LN_GROWTH	+	0.001	-0.002	0.051**	0.129	0.031**	0.028	0.029**
		-0.02	-0.02	-0.02	-0.08	-0.01	-0.02	-0.02
LN_SIZE	+	0.042*	0.042*	0.021	-0.002**	-0.059***	0.001	-0.001
		-0.02	-0.02	-0.03	0	-0.01	0	-0.01
BIG4	+	0.031***	0.033***		0.265	0.003	0.007	0.009
		-0.01	-0.01		-0.32	-0.01	-0.01	-0.01
L.LN_ROA		-0.100	-0.095	-0.034	-0.205	0.016	-0.092	-0.050
		-0.14	-0.14	-0.19	-0.21	-0.02	-0.06	-0.05
N		129	128	45	48	60	228	315

Notes: *,** and *** denote significant at 10%, 5% and 1% levels respectively

LN_ROA is natural logarithm of return on assets.. FAMC_DUMMY is a dummy variable of family ownership. STATC_DUMMY is a dummy variable of state ownership. INSTITC_DUMMY is a dummy variable of institutional ownership. IND is the ratio of independent director to the total directors. ROYAL is the ratio of royal family member to the total directors. LN_BSIZE is natural logarithm of the board size. ROYAL_BIG4 is interaction term between royal family members on the board and big 4 audit firm. LN_LEVERAGE is natural logarithm of total liabilities divided by total assets. LN_GROWTH is natural logarithm of the annual change in net sales divided by

average total assets. *LN_SIZE* is natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise

Table 6.6.C. GMM Regression. CG and (LN_ROE)- Firm Performance- MODEL 2- Individual Country								
	Expected sign	UAE	UAE_AB	UAE_DU	BH	Qatar	Oman	SA
_CONS		-0.294	-0.344	0.077	0.203	1.431**	0.716***	0.404
		-0.51	-0.52	-0.38	-0.18	-0.66	-0.13	-0.25
FAMC_DUMMY	+							0.155**
								-0.06
STATC_DUMMY	-							0.319***
								-0.11
INSTITC_DUMMY	+							0.090
								-0.07
CEOD	-	0.803*	0.709	0.951*	-0.007		0.001	
		-0.44	-0.43	-15.8	-0.16		-0.02	
IND	+	-0.015	-0.017	0.020	0.003	0.115	0.067*	-0.019
		-0.03	-0.03	-0.12	-0.04	-0.09	-0.05	-0.02
ROYAL	+	-0.141	-0.167	-0.301	-0.010	-0.056	0.418	0.225
		-0.13	-0.12	-0.77	-0.1	-0.37	-0.34	-0.15
LN_BSIZE	+	0.018*	0.019*	0.030**	0.013**	0.014	0.000	0.001
		-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	0
ROYAL_BIG4 ⁸⁰	+	-0.529**	-0.479**	-3.787***	3.637***	0.958		0.093*
		-0.24	-0.22	-1.04	-0.8	-0.84		-0.07
LN_LEVERAGE	-	0.142	0.141	0.726***	0.183*	0.194**	-0.027	0.095***
		-0.11	-0.1	-0.26	-0.1	-0.09	-0.06	-0.04
LN_GROWTH	+	-0.008	-0.016	0.130***	-0.028	-0.043	0.049	0.043*
		-0.04	-0.04	-0.05	-0.05	-0.05	-0.07	-0.02
LN_SIZE	+	0.063*	0.063*	-0.040	-0.003***	-0.054**	0.000	-0.026
		-0.04	-0.04	-0.05	0	-0.03	0	-0.02
BIG4 ⁸⁷	+	0.052**	0.054***		0.026	0.007	0.006	0.002
		-0.02	-0.02		-0.13	-0.02	-0.02	-0.01
L.LN_ROE		-0.035	-0.050	-0.039	-0.485***	0.056	0.069	0.024
		-0.13	-0.13	-0.14	-0.1	-0.03	-0.1	-0.07
N		129	128	45	48	60	228	315

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_ROE is natural logarithm of return on equity. FAMC_DUMMY is a dummy variable of family ownership.

STATC_DUMMY is a dummy variable of state ownership. INSTITC _ a dummy variable of institutional ownership.

CEOD a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero

⁸⁰ even though the variable is part of the model in Oman, the GMM regression omitted this variable, similar results observed with Big4 in Dubai

otherwise. *IND* is independent director to the total directors. *ROYAL* is the ratio of royal family member to the total directors. *LN_BSIZE* is natural logarithm of the board size. *ROYAL_BIG4* is inter between royal family members on the board and big 4 audit firm. *LN_LEVERAGE* is natural logarithm of total liabilities divided by total assets. *LN_GROWTH* is natural logarithm o change in net sales divided by average total assets. *LN_SIZE* is natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited b BIG4 and zero otherwise

Chapter 7

The analysis and Results of Royal Family Members and Firm Performance and Firm Value

7.1 Introduction

Previous chapter discusses the result of research question two which focused on CG, firm performance and firm value in five GCC countries. This chapter provides the results of research question three, which is what the effect of attendance of royal family members at board meetings on firm performance and firm value in Saudi Arabia. The structure of this chapter is as follows: Section 7.2 indicates descriptive statistics and correlation matrix of data, univariate analysis which allows the data to be understood; Section 7.3 details the multivariate analysis of the data which examines the relationship between predicted variables, predictor variables and control variables; Section 7.4 provides the results of the robustness test; Section 7.5 offers the discussion of the results and Section 7.6 summarises the chapter.

7.2. Empirical Findings

7.2.A. Descriptive Statistics

Table 7.1 presents descriptive statistics for the main model variables. The weighted average of attendance of royal family members at board meetings (MEETR) is 1.2 percent on average, and 2.2 percent of royal family members present on the board (ROYAL). This percentage is considerably lower than the percentage of royal family members on the board as found by Alghamdi (2012) in his thesis, which was 45 percent. One reason for this may be the use of a different measurement. The study uses the ratio of a royal family member on the board to the board of directors whereas Alghamdi measures them as a dummy variable that takes one if the board of directors includes at least one royal family member or powerful and a wealthy family member and zero otherwise. As he accounts for the rich families as well, he does not solely measure royal family members on the board. Besides this, the data he selects was from 2006-09 whereas this research question covers the period from 2009 to 2013. If the study uses a dummy variable of the royal family on the board, the percentage would be 18 percent ($91/491 = 18$

percent). In other words, using a dummy variable instead of percentage gives the number of cases where there is at least one royal family present on the board. In addition, there is a noticeable gap between the percentage of attendance and the ratio of royal family members on the board. This means not all royal family members on the board attended the board meetings, 4.6 percent of royal family members presenting on the board are independent directors (INDR). The average number of directors on the board is nine members (BSIZE) and the requirement in CG code is three to eleven members on the board. In addition, this average is similar to the average board in Malaysian firms (Haniffa & Hudaib, 2006) and is the recommended number of board members by (Lipton & Larsch, 1992). Regarding control variables, the mean of leverage (LEVERAGE) is about 38 percent while the average of the growth (GROWTH) 4.3 percent. On average, firm size (LN_SIZE) is \$13.26 million, 59 percent of firms hire one of the big-4 audit firms as their independent auditor.

The correlation matrix of variables is shown in Table 7.2. The correlation matrix shows the strength of linear relationship between two variables. There is a positive relationship between the number of royal family members on the board and firm performance (ROA, and ROE). The association is direct between independent royal family members on the board and firm performance (ROA and ROE) and firm value (Tobin's Q) as expected. Board size has a positive association with firm performance (ROA and ROE) and negative association with firm value (Tobin's Q). The relationship is non-linear between firm value (Tobin's Q) and firm performance (ROA) with leverage. Firm growth exhibits a positive and direct correlation with firm performance (ROA and ROE) and firm value (Tobin's Q). There is also a statistically significant negative correlation between firm performance (ROA and ROE) and firm value (Tobin's Q) with firm size. The Big-4 has a positive and significant correlation with firm performance (ROA, and ROE). All correlation is relatively low and the VIF of all variables is lower than the rule of thumb 10, which indicates that there is not a problem of multicollinearity in the sample data (Bowerman & O'Connell, 1990; Myers, 1990; Tabachnick & Fidell, 2001).

7.2.B.Univariate Analysis:

The evidence from Table 7.3 shows the p-value is statistically significant, indicating that there is a significant association between firm performance ROA and ROE⁸¹ when a higher level of royal

⁸¹ The study is not able to run the t-test between Tobin's Q (firm value measure) and royal family members on the board or attendance of royal family members at the board meetings because of limit variation of royal family members on the board, attendance of royal family members at the board meetings with Tobin's Q.

family members are on the board and there is higher attendance of royal family members at the board meetings. In other words, there is evidence that the mean is different from two groups indicating that better performing firms are more likely to select royal family members and that these members attend board meetings.

7.3. Multivariate Analysis:

Table 7.4 shows the results between the attendance of royal family members at board meetings and other royals' variables with GC attributes and firm performance using ROA, and ROE as proxy and firm value using Tobin's Q, as a proxy. This table is structured as two panels A and B. Panel A presents the results of model 1 and panel B presents the results of model 2.

The study finds that the association between royal family members' attendance at board meetings (MEETR) and firm performance measured by ROA and ROE is statistically significant and positive (ln_ ROA, ln_ ROE: coefficient= 0.397; 0.514, P-value< 1% respectively). The result is in line with the first hypothesis, theoretical claim (agency theory) and supports findings in the extant literature. The literature documents that a higher number of board meetings reflect that the board is active and able to solve a problem and monitoring management (Managena & Tauringana, 2008; Vefas, 1999; Conger et al., 1998; Adams & Ferrira, 2009). The positive effect of royal attendance on firm performance possibly shows their diligence. Furthermore, the attendance of royal family members at the board meetings has a negative but non-significant association with firm value proxy indicating that the investors do not care that much about the royal family members at the board meetings.

The study also finds that the independence of royal family members on the board (INDR) is positive and statistically significant under firm value indicators (ln_Tobin's Q, ln_ROA, and ln_ROE: coefficient= 1.310; 0.021;0.025, P-value < 1% respectively). This result supports the second hypothesis, theoretical claim (agency theory) and prior studies (Chhaochharia & Grinstein, 2009; Sonnenfeld, 2002; Baranchuk & Dybvig, 2009; Weir et al., 2002; Gupta & Fields, 2009; Ho & Williams, 2003; Mangena & Tauringana, 2008; Du et al., 2014; Wang, 2015). For instance, under agency theory, IND directors mitigate the conflict of interest between the management and the shareholders. In other words, IND can overcome the gap between the management and shareholders about information asymmetry and help to provide adequate information to users. This also means that independent royal family members adopt their role on

the board, leading to a positive impact for the firm's performance and firm value. This also supports the extant literature on positive influence of independent politically connected directors on firm performance and firm value (Du et al., 2014; Wang, 2015). Although the selection of independent directors in developing countries is based on political decisions to create contracts and networks rather than expertise and experience (Haniffa & Hudaib, 2006); the independence of royal family members seems to be able to contribute to independent monitoring and reducing agency conflicts and to provide the firm with connections. Another possible explanation is that the independence of royal family members on the board might not like other independent directors on the board but would prefer a chairman role thereby mitigating any agency conflict.

To further support the findings of independence of royal family members on the board in the second model, an additional interaction variable is included between independent royal family members on the board and royal family members on the board directly related to the King (his royal highness). In Panel B, the study observes similar findings to panel A. With regard to additional variable, the study finds that the relationship between independent royal family members on the board who have a direct relation with the Saudi King (IND_KING_DIRECT) and firm value as measured by Tobin's Q is statistically significant and negative (coefficient=-0.765, p-value<5%), indicating that investors and the market expect a lower firm value when the independent royal family members are closely related to the Saudi King on the board of directors. Interestingly, the coefficient of this variable has a negative sign but is non-significant with firm performance measures (ROA and ROE). This finding supports the recent evidence proposing that independent directors are not always value enhancing (Wintoki et al., 2012) as they might be rent seeking tool rather than monitoring and consulting (Ye & Li, 2017).

Regarding the non significant association, royal family members on the board and board size have a negative and non-significant association with firm value but a positive and non-significant association with firm performance, indicating that some variables have different effects on firm value and firm performance. Thus, these variables do not have a significant effect on firm value and firm performance as in the case of Saudi Arabia.

Control Variables

Leverage (*LEVERAGE*) has a positive and significant association with firm performance as measured by ROA. The result is not in line with expected signs but supports a number of prior

studies (Haniffa & Hudaib, 2000; Jang & Park, 2011; Anderson et al., 2003), which conclude the positive relationship between two variables.

Before using the GMM regression, the study employs pool OLS regression and panel data regression, briefly, under these regressions, attendance of royal family members at the board meetings and leverage negatively associated with firm value and firm performance where independence of royal family, board size, growth have positive relationship between firm value and firm performance. Not surprisingly, counting for endogeneity problems, a number of these results disappear under GMM regressions. This study relies on GMM estimator to examine the relationship between internal CG, firm performance and firm value because the results of OLS and panel data regressions are biased due to endogeneity problems.

7.4 Robustness Tests

Examining the attendance of royal family members may not measure their contribution. This may provide unclear evidence about their influences, therefore, the study needs to fill this gap. However, according to Shi et al., (2018), it is difficult to measure the direct resources brought by politically connected board members into a firm. Thus, to examine the economic consequences and contribution of attendance of royal family members at the board meetings, the study re-run the main regression but add two interactions terms following Shi et al., (2018): first, *MEETR_LEVERAGE* (attendance of royal family members⁸² at board meetings and firm leverage). Leverage represents the demand of leverage by firm; second, *MEETR_INDR* (attendance of royal family members at board meetings and independence of royal family directors). Ye & Li, (2017) argue that independent politically connected directors who are involved in the firm diligently are more likely to attend more board meetings. Therefore, they play a more critical role in monitoring and consulting in the firm.

The interaction helps us to find out whether the attendance of royal family members at board meetings brings resources, such as leverage that affects firm performance and firm value. Interaction terms between *MEETR_LEVERAGE* has a negative and significant association with ROA and ROE. This result is consistent with expected signs. A possible explanation is that the higher the attendance of royal family members at the board meetings in high leveraged firm, the

⁸² The choice of interactions explained in detail in methodology chapter (4).

lower the firm's performance which refer to short financial performance. This supports the literature that politically connected firms tend to have higher leverage compared to non-politically connected firms. The interaction indicates that when the firm demands for financial resources such as debt, the potential of royal family attendance at the board to bring debt negatively affects a firm's short-term financial performance. The finding is in line with Shi et al., (2018)'s observation. Also, the finding is contrary to prior studies that argue that the politically connected board member is a resource-providing tool (Faccio et al., 2006; Wang, 2015). With regard to thesecond interaction *MEETR_INDR*, there is a positive association between the interaction term and firm's performance measure (ROA and ROE), indicating that the attendance of independent royal family members at a board meeting is important and can play a distinct role, which enhances the firm's performance. The result supports the claim made by Ye & Li, (2017).

With regard to capital expenditure, the results indicate that there is a negative association between royal family members' attendance at board meetings (*MEETR*), the number of royal family members on the board (*ROYAL*) and capital expenditure (*CAPEX*). These results suggest that an increase in the attendance of royal family members at board meetings and an increase in the number of royal members on the board would decrease the capital expenditure in investment, indicating that attendance of royal directors encourage the short-term shareholder value. The results also agree with the calim made by Baure et al., (2007)'s findings. Regarding control variables, just CFS has a negative association with capital expenditure. Regarding the adjusted Tobin's Q and adjusted ROA robustness tests, the results remain unchanged.

7.5 Discussion

This section of the dissertation pays specific attention to the attendance of royal family members at board meetings and other royal family directors affect the firm's performance and firm value in Saudi non-financial listed firms. The findings highlight a number of observations. Attendance of royal family members at board meetings improves firm performance, which indicates enhancing short-firm performance. The study examines attendance versus contribution of their attendance to get a clearer picture. Thus, the study links attendance of royal family members at board meetings to a number of variables namely, firm leverage and independence of royal directors on the board. The results show that the characteristic of the firm matters and more attendance of royal family members at the board meetings in high leveraged firm, leads to a lower performance. the attendance of independent royal family at the board meetings helps to increase firm performance in Saudi listed firms. In other words, listed firms in Saudi Arabia benefit more from attendance of independent royal family directors at board meetings. The effect of independent directors on firm performance has been extensively discussed in the literature, however, to the best of my knowledge, this is the first paper that examines and discusses the effect of the independent royal family in depth. The independence of royal family members on the board is important. The independence of royal family members has enhanced firm performance and firm value indicating that they play effectively independent roles. Another possible explanation is that the independent royal family members on the board might not like other independent directors being on the board but would prefer to have a chairman role, thereby mitigating any agency conflict.

However, independence of royal family directors who have the title of a royal highness or who are closely related or directly related to the King tends to have more power than other independent royal family members. According to the finding of this study, they have negative influence on firm value; thus, they may reduce the value of the firm and play a non-effective role in monitoring. This result implies that the independent royal family who has power through connections with the current King does not provide effective monitoring and does not represent shareholders. Finally, the study finds strong and consistent evidence that highly political ranked individuals reduce, rather enhance, firm value as they are less effective in monitoring managers and mitigating the agency problem. Thus, the implications for policymakers with regard to independent directors are to strengthen and improve the institutional environment of firms, investor protection and CG environment in the country.

7.5. Conclusion

This chapter documents the results of the third research question that focuses on the relationship between attendance of royal family members at board meetings and firm performance and firm value in Saudi Arabia. The chapter is organised as follows: Section 7.1 described the descriptive statistics, correlation matrix of data, and univariate analysis; Section 7.2 and 7.3 explains the main results, and the results of robustness tests. In addition, Section 7.4 provides the discussion of the results. The main and most interesting findings which come out from this research question are that the attendance of royal directors at the board meetings provides enhancement to a firm's performance but does not affect the firm's value, indicating that the market and investors may not care about their attendance at board meetings. However, considering the firm characteristic is also important, thus, the attendance of royal directors at board meetings in high leveraged firms tends to decrease firm performance. Furthermore, the ranking of royal family (royal highness) or closeness to the King influences the effect of independent royal family members on the value and performance of the firm. This novel finding indicates that the more powerful and independent a royal family (royal highness) member on the board, there is a negative influence on a firm's value. The following final chapter presents the thesis' overall conclusions, implications, and practical limitations of the research work.

Table 7.1. Descriptive Statistics of Royal Family Members, Firm Performance and Firm Value Saudi Arabia

Variable	Mean	Median	Std. Dev.	Min	Max
TOBIN'S Q	1.747	1.458	1.035	0.283	4.657
ROA	0.069	0.055	0.077	-0.052	0.264
ROE	0.110	0.092	0.112	-0.079	0.351
MEETR	0.012	0	0.041	0	0.28
INDR	0.046	0	0.211	0	1
ROYAL	0.022	0	0.048	0	0.2
BSIZE	8.289	9	1.512	4	12
LEVERAGE	0.376	0.337	0.224	0.041	0.955
GROWTH	0.043	0.025	0.121	-0.441	0.458
LN_SIZE	13.262	13.132	1.571	9.896	17.004
BIG4	0.590	1	0.492	0	1

N=491

Notes: *TOBIN'S Q* is market value measure. *ROA* is return on assets. *ROE* is return on equity. *MEETR* is weighted average of royal family attendance at board meetings. *INDR* is the independence of royal family members on the board. *ROYAL* is the ratio of royal family member to the total directors. *BSIZE* is the board size. *LEVERAGE* is total liabilities divided by total assets. *GROWTH* is the annual change in net sales divided by total assets. *LN_SIZE* is natural logarithm of total assets. *BIG-4* is a dummy variable that takes the value of one if the company is audited by one of the BIG-4 and zero otherwise

Table 7.2. correlation Matrix of Royal Family Members, Firm Performance and Firm Value- Saudi Arabia

	TOBIN'S Q	ROA	ROE	MEETR	INDR	ROYAL	BSIZE	LEVERAGE	GROWTH	LN_SIZE	BIG4	VIF
TOBIN'S Q	1											
ROA	0.467*	1										
ROE	0.355*	0.915*	1									
MEETR	0.036	0.086	0.084	1								1.89
INDR	0.203*	0.257*	0.166*	0.440*	1							1.36
ROYAL	0.071	0.138*	0.149*	0.649*	0.414*	1						1.83
BSIZE	-0.196*	0.071	0.101*	0.017	0.046	0.009	1					1.26
LEVERAGE	-0.264*	-0.221*	0.022	-0.026	-0.207*	-0.035	0.024	1				1.65
GROWTH	0.090*	0.310*	0.365*	0.037	-0.008	-0.001	0.002	0.220*	1			1.09
LN_SIZE	-0.414*	-0.050	0.048	0.026	-0.061	-0.055	0.4001*	0.482*	0.027	1		1.66
BIG4	-0.027	0.091*	0.186*	-0.063	-0.070	-0.000	0.055	0.357*	0.199*	0.161*	1	1.18

Notes: *TOBIN'S Q* is market value measure. *ROA* is return on assets. *ROE* is return on equity. *MEETR* is weighted average of royal family attendance at board meetings. *INDR* is the independence of royal family members on the board. *ROYAL* is the ratio of royal family member to the total directors. *BSIZE* is the board size. *LEVERAGE* is total liabilities divided by total assets. *GROWTH* is the annual change in net sales divided by total assets. *LN SIZE* is natural logarithm of total assets. *BIG-4* is a dummy variable that takes the value of one if the company is audited by one of the BIG-4 and zero otherwise.

Table 7.3. Univariate Analysis- Test- Saudi Arabia				
Variables	ROA	t-statistics	ROE	t-statistics
Royal high	0.09		0.10	-3.64**
Royal low	0.06	-3.30**	0.15	
Variables				
	ROA	t-statistics	ROE	t-statistics
MeetR high	0.08		0.14	-1.67*
MeetR low	0.06	-1.65*	0.11	

Table 7. 4. GMM Regression - Royal Family Members, Firm Performance and Firm Value - Saudi Arabia

	Expected sign	Panel A- Model 1			Panel B- Model 2		
		Firm Value	Firm Performance		Firm Value	Firm Performance	
		LN_TOBIN'S Q	LN_ROA	LN_ROE	LN_TOBIN'S Q	LN_ROA	LN_ROE
_CONS		6.442	0.219	-0.164	6.826	0.199	-0.123
		-11.08	-1.71	-2.28	-11.07	-1.74	-2.3
LN_MEETR	+	-4.921	0.397***	0.514***	-3.499	0.424***	0.546***
		-3.69	-0.13	-0.17	-3.39	-0.14	-0.18
INDR	+	1.310***	0.021***	0.025***	1.662***	0.014**	0.023**
		-0.18	0	-0.01	-0.22	-0.01	-0.01
ROYAL	+	-0.421	0.108	0.157	-1.246	0.092	0.127
		-2.2	-0.23	-0.29	-2.29	-0.23	-0.29
LN_BSIZE	+	-0.473	0.042	0.066	-0.348	0.044	0.066
		-0.87	-0.03	-0.04	-0.91	-0.03	-0.05
LN_LEVERAGE	-	0.267	0.061*	0.154***	0.296	0.062*	0.155***
		-0.5	-0.03	-0.05	-0.49	-0.03	-0.05
LN_GROWTH	+	-0.075	0.036	0.056	-0.076	0.036	0.055
		-0.36	-0.02	-0.04	-0.36	-0.02	-0.04
LN_SIZE	+	-1.494	-0.076	0.031	-1.717	-0.071	0.019
		-3.41	-0.53	-0.72	-3.41	-0.54	-0.72
BIG4	+	-0.075	0.006	0.002	-0.073	0.006	0.002
		-0.11	-0.01	-0.01	-0.11	-0.01	-0.01
MEETR_LEVERAGE	-	9.207	-1.318***	-2.051***	7.726	-1.341***	-2.068***
		-7.45	-0.48	-0.67	-6.92	-0.48	-0.67

INDR_KING_DIRECT ⁸³	+			-0.765**	-0.015	-0.008
				-0.38	-0.01	-0.02
L.LNTOBINQ	0.051			0.039		
	-0.05			-0.04		
L.LN_ROA		-0.144			-0.143	
		-0.11			-0.11	
L.LN_ROE			-0.105			-0.105
			-0.11			-0.11
Year dummy	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummy	Yes	Yes	Yes	Yes	Yes	Yes
N	277	277	277	277	277	277

Notes: *, ** and *** denote significant at 10%, 5%, and 1% levels respectively

LN TOBIN'S Q is natural logarithm of market value measure. LN ROA is natural logarithm of return on assets. LN ROE is natural logarithm of return on equity. LN MEETR is natural logarithm of weighted average of royal family attendance at board meetings. INDR is the independence of royal family members on the board. ROYAL is the ratio of royal family member to the total directors. LN_BSIZE is natural logarithm of the board size. LN_LEVERAGE is natural logarithm of total liabilities divided by total assets. LN_GROWTH is natural logarithm of the annual change in net sales divided by average total assets. LN_SIZE is natural logarithm of total assets. BIG4 is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise. MEETR_LEVERAGE is an interaction term between royal directors attendance at board meetings and leverage. INDR_KING_DIRECT is an interaction term between INDR and Royal family members on the board closely related to the Saudi King.

⁸³ KING_DIRECT is Royal family members on the board closely related to the Saudi King is omitted by GMM regression.

Chapter 8

Conclusion, Limitation and Future Work

“The function of CG matters for both economics and financial stability (OECD, 2012)”.

8.1 Introduction

Previous chapters discussed the institutional setting, theoretical framework, literature review, research methodology and findings of three research questions. This final chapter concludes the thesis. The structure of this chapter is as follows: section 8.2 offers a brief review of the research problem and the aim of the research questions. Section 8.3 provides a recap of the thesis' chapters and the main findings of the three research questions. Section 8.4 outlines the academic contributions to knowledge and practical implications. Section 8.5 looks at the limitations of the work and discusses future avenues for research stemming from the thesis. Section 8.6 summarises the book of evidence.

8.2. Research Problem and Questions

8.2.A. Research Problem

Corporate governance (CG) in general is important and significantly contributes to the firm earnings quality (EQ), firm performance and firm value as well as the country's economy (Tricker, 2009). After a number of stock market crashes, firm scandals and closures, investors, especially minority shareholders, have lost confidence in financial markets (Raghu, 2016). Therefore, CG is receiving more attention from policy makers, practitioners and researchers globally.

Studies show that investors, especially minority ones, are more concerned with CG and its consequences on stock markets, to protect their rights, lower the potential risk of their investment and become confident overall in the equity market (La Porta et al., 2002; John et al., 2008;

Hamdani et al., 2012; Mclean et al., 2012). Previous studies also proposed that CG mechanisms are beneficial for the economy, markets, shareholders and others, as they protect the investors, increase disclosure and stabilise the market. Therefore, markets would be more efficient and would attract and retain investors (La Porta et al., 2002). Most of the previous studies have been conducted in developed countries such as the US and the UK (Bekiris & Doukakis, 2011; Ebaid, 2005). Therefore, there is no significant emphasis on developing countries. Markets around the world have become more integrated and globalised (Lehkonen & Heimonen, 2014; Miralles-Marcelo et al., 2015). Not understanding these emerging markets highlights the missing piece in the literature. Thus, the literature should cover both developed and emerging markets to reflect the globalisation or the context of the global market. GCC countries, as emerging markets, were not immune to these issues of scandal and collapse. However, in the case of GCC countries, there has been a dearth of research and a number of recent studies call for more investigation into the effect of CG on EQ, firm performance and firm value to understand the markets, expand the horizon of policymakers and investors of the markets' performance (Alghamdi, 2012; Baydoun et al., 2013; Dalwai et al., 2013). Metrick & Ishii (2002) and Klapper & Love (2004) argue that understanding the quality of CG practice and its influence on EQ, firm performance and firm value are more important when a country has a weak legal system and there is a need for more research into this issue. Specifically, Mahadeo et al., (2011) claim the importance of considering the characteristics of emerging countries in empirical research. Nguyen et al., (2014) conclude that when corporate control⁸⁴ is poor, the structure of internal CG matters more. They also encourage more empirical research to understand the international diversity on internal CG. Another justification for these research questions is that according to several surveys carried out in GCC countries, CG is one of concern in the GCC business environment (Eulaiwi et al., 2016). In addition, GCC countries differ from other developed and well-established emerging economies (Bely & Chen, 2006; Baydoun et al., 2013; Mazaheri, 2013) due to the complexities of culture and institutional setting. Thus, understanding GCC corporate governance structure and practice is relevant and increases the understanding between emerging countries.

The thesis examines the effect of CG on firm EQ, firm performance, and firm value in five GCC countries with special focus on royal family members. It conducts an in-depth analysis of five GCC countries as a single population⁸⁵ and individual country across industries namely, basic material, consumer goods, consumer services, industrials, telecommunication and utilities. The

⁸⁴ Corporate Control refers to capital market, the regulatory system, product and factor market (Jensen, 1993).

⁸⁵ They have similar characteristics, which can represent a relatively homogenous population.

research accounts for two aspects of the CG mechanisms: board of directors' characteristics and ownership structure. Both are considered to be an essential part within internal CG mechanisms to monitor management performance and to mitigate agency conflict. The board of directors play a particularly central role in monitoring, as advisory and strategic planning.

8.2.B. Research Questions

As mentioned previously, even though research of CG and its impact on firm EQ, firm performance and firm value is well-established in developed countries, research in this area is not explored in any depth in the literature of developing countries, particularly GCC countries. This presents a significant gap in literature, seeking to enable policymakers and investors to understand this subject better. The study domain is situated in the field of accounting and corporate finance in the research area of CG. The study investigates the effect of CG on EQ, firm performance and firm value in five GCC countries. To address this, the main topic is divided into three research questions.

Q1- What is the effect of corporate governance (board of directors' characteristics and ownership structure) on earnings quality in five GCC countries?

Q2- What is the effect of corporate governance (board of directors' characteristics and ownership structure) on firm performance and firm value in five GCC countries?

Q3- What is the effect of the attendance of royal family members at board meetings on firm performance and firm value in Saudi Arabia?

What distinguishes this study from others in emerging markets is that The study accounts for culture, political and economic systems which differ in GCC countries. These differences certainly affect how CG structure in GCC countries influences EQ, firm's performance, and firm value. This research question contributes to a more detailed understanding of the impact of ownership structure and CG attributes by considering royal family members representation on boards. It also investigates their effect on EQ, firm performance and firm value of listed companies in five GCC countries and extending the existing theory. It is a unique study, which provides a significant contribution to the literature of emerging countries, in general, GCC countries, in particular.

The objective of the first research question was to investigate the effect of internal CG on EQ in five GCC countries. The research is interested in understanding in more detail the influence of a CG on EQ by considering institutional unique features. The second question focuses on the effect of CG on firm performance and firm value in five GCC countries. Besides accounting for royal family members and government officials, more attributes of internal CG is considered in the question such as female directors, relatives and audit committee's characteristics. Moreover, the results of the first and second question illustrate that CG mechanisms are positively affect EQ.

Research question three focuses on the effect the attendance of royal family members at board meetings has on a firm's performance and a firm's value in Saudi Arabia. As with question two, the findings of research questions one and two act as a further input in question three. The results from questions one and two about royal family members concludes that independence of royal family members influence EQ, a firm's performance and firm value. Arguably, in developing countries such as GCC countries, it is still not clear how royal family members on the board impact CG practice, which in turn influences firm performance and value. They are an important variable because they represent a specific institutional setting. The effectiveness and activity of the board of directors via their meeting have not been given much attention in the empirical literature. Thus, the research is interested in understanding the influence of royal family on firm performance and firm value by considering additional attributes. Basically, the motivation of the research question is to examine both meetings and royal family members on a board. No examination is made with regard to the effect of attendance of royal family members at a board meeting on a firm's performance and firm value in the extant literature. Therefore, this research question addresses this gap in the literature with regard to their effect. As monarchies, it is interesting to examine this question in all five major GCC countries. However, due to limited availability of data for the royal family, the third question focuses only on Saudi Arabia. By accounting for the effect of attendance of royal family members on the board, besides other variables on a firm's performance and firm value, the research extends the relevance of the analysis.

Finally, it is worth mentioning that the economic rationale of using both firm performance and firm value in questions two and three, is that firm performance measurements (ROA and ROE) show performance based on historical information, reflecting previous firms' operation, and the efficiency of the firm using equity funds to generate profits (Epps & Cereola 2008; Leng 2004)

where the firm value measurements (Tobin's Q) show performance based on firm value by market evolution of the assets (Tobin, 1969), which in turn reflects current action (Kiel & Nicholson, 2003).

8.3. Recap of Thesis Chapters

Chapter 1 introduces the research problem and questions. The chapter highlights the importance of studying CG in emerging markets. Following this, the chapter outlines the links between the research questions and the importance of CG for minority shareholders. Finally, the chapter briefly introduces the content of the thesis' chapters.

Chapter 2 discusses the institutional setting and theoretical framework. This chapter divides into two sections: section A in chapter 2 reviews the GCC countries in terms of their economies similarities and differences with other emerging markets. It then looks at CG in general. The research is aware of their⁸⁶ differences so in the third subsection of institutional setting, The research reviews the five stock markets and their CG codes, highlighting their similarities and differences. The code of CG in general shows more similarities than differences. By and large, the definition of responsibilities, functions of the board of directors and establishment of an audit committee are also quite similar. Nonetheless, the definition of independent directors varies slightly across these countries. Section B in Chapter 2 reviews CG theory to seek to explain the results of the research questions.

Chapter 3 reviews the literature related to the three research questions. This section is divided into a number of sections. The first section highlighted the general literature review of CG mechanisms. Sections two and three discuss the extant literature of EQ, firm performance and firm value. The last section provides the hypotheses development for each of the three research questions.

Chapter 4 is also divided into a number of sections. The first section provides a brief review of social science philosophical stances, research methodologies and methods. The research justifies the adoption of positivist philosophy as the primary research paradigm and using quantitative methods to conduct the analysis. The second section outlines the data collection procedure. Briefly, financial data was retrieved from Datastream and CG data is hand-collected from firms'

⁸⁶ GCC countries.

annual reports and CG reports. In addition, the research uses a sample survey to collect any missing CG data. This is to supplement the data and to increase the sample size. Following that, the idea of using UK CG as a benchmark (Bekiris et al., 2011) is discussed in order to evaluate the quality of five GCC corporate governance practice as a single population. This is due to the fact that their similarities outweigh their differences (AL- Muharrami et al., 2006; Al- Muharrami & Matthews, 2009; AL-Musalli & Ismail, 2012). The researcher is aware of their differences so the evaluation of individual CG practice in each country is considered as well. Furthermore, The study analyses two stock markets in UAE separately due to some identified differences. Following on from this, diagnostic tests, parsimonious model, regression model and control variables are utilised in each research question. Section four focuses on the measurement: main analysis and additional analysis to check the robustness of the results of each research question. For research question one which focuses on the effect of CG on EQ in five GCC countries, the study discusses the adoption of the Defond & Park (2001) model to measure abnormal working capital as proxy for EQ and then uses the Modified Jones Model (1995) as a robustness test. For question two which concentrates on CG, firm performance, and firm value in five GCC countries, the research uses (ROA and ROE) as a firm performance proxy and (Tobin's Q) as a firm value proxy. For the robustness test, the study uses a different measurement of firm performance proxy (Adj ROA) and firm value proxy (Adj Tobin's Q). The study discusses in detail the use of principal component analysis (PCA) to reduce the number of CG attributes, which produces factors that are used in the regression. The research also discusses the use of a second model to test individual CG attributes, firm performance, and firm value and. For question three, similar firm performance and firm value indicators are used. The rationale using both is that firm performance measurements show performance based on historical information (short-term firm performance), whereas the firm value measurements refer to long term performance, growth and opportunities. Following on from that, the study discusses the use of additional analyses as robustness tests to check whether the result would change or not. The study runs pooled OLS regressions and Panel data models with random effect regression to better analyse the data⁸⁷. However, due to the endogeneity problem and other econometric issues, the study settled upon the GMM regression (xtabond commend in STATA) method to report the main results of this research question.

⁸⁷ The study reports the OLS regression and Panel Data regression for five GCC countries in the Appendix. However, for individual countries, the study only reports GMM regression due to the main analysis based on GMM as it is accounting for the endogeneity issue.

Chapter 5 investigates research question one which focuses on the impact of internal CG on EQ in five GCC countries and discusses the results. The main findings of the study are consistent with agency theory and the finding of previous literature. Interestingly, royal family directors destroy the EQ of the firm indicating that a high number of royal family members on the board may create some conflict of interest among them whereas independent royal family members on the board improve the EQ of the firm, especially in Saudi Arabia. However, the results also indicate that CEO duality⁸⁸ in the high growth firm significantly decreases firm's EQ. These results remain unchanged using different robustness checking tests.

Chapter 6 answersd research question two which examines the effect of internal CG on a firm's performance and firm value in five GCC countries. The main observations is that the results of both models are inconclusive and thus need further study. However, if the study solely looks at the support of findings under these two models the study may still tell an interesting story. With respect to individual countries, there are few differences in the association between firm performance and firm value. These results indicate that firm value refers to investment, growth and long-term performance where accounting measures reflect the short-term performance. Thus, some CG variables have a different effect on firm performance and firm value.

Chapter 7 investigates research question three and discusses the results. The main findings from this research question are that the attendance of royal directors at the board meetings provides enhancement in firm performance but not on firm value, indicating that the market and investors may not care about their attendance at board meetings. However, considering the firm characteristic is important, the attendance of a royal director at board meetings in a highly leveraged firm tends to decrease firm performance. These results signal that the attendance and number of royal family members reflect the short-term growth of a firm's performance, which represents the short-term shareholder value as they care more about short-term performance. The market expects opportunities and growth to be reduced when the number of members on a board and their attendance increases. Interestingly, the ranking of the royal family (royal highness) or their closeness to the King influences the effect of independent royal family members on the firm's performance and value of the company. Thus, the investors and markets expected that the independent Royal Highness on the board would reduce the firm's value. In other words, the

⁸⁸ dual leadership or combined leadership

market exhibits a negative expectation for firm growth and opportunities when royal family members are independent and a Royal Highness.

8.4 Research Contribution

The primary purpose of the study is to examine the effect of CG on EQ, firm performance and firm value with particular attention on royal family members on the board. The study is an in-depth analysis of the influence of both of these variables in five GCC countries, which was identified during a comprehensive review as a gap in extant literature. The study offers a comprehensive analysis of CG and its impact on EQ, firm performance, and firm value in GCC countries literature to date.

The study utilizes three research questions to guide the research process. Answering these questions extends the understanding (of GCC stock markets) and possible interest in the region. The thesis contributes to the academic literature in the fields of accounting and corporate finance in the domain of CG. The thesis also challenges and questions the validity of prior empirical research on GCC countries since they ignore, or do not account for, these important variables (royal family members on the board). Having a clearer picture about the function of CG practice and how each variable influence EQ, firm performance and firm value is important to the understanding of the dynamics of stock markets in this region. Thus, as the findings emerge from these research questions, and link to the extant literature, some theoretical and practical contributions to policymakers and investors may be recognized.

8.4.A.Theoretical contributions

The thesis follows the recommendation of prior studies by using agency theory as a theoretical framework to examine and analyse the empirical findings. The empirical findings are in line with the predictions of agency theory. Recently, agency theory has been receiving a number of criticisms about its empirical applicability (Perrow, 1986; Deegan & Unerman, 2011) but the empirical findings of this research provide evidence that there is an agency problem in the region as explained previously. Thus, a number of CG mechanisms mitigate the effect of the agency problem. Therefore, these findings extend the literature by validating the theory. The Arab environment has different characteristics in terms of the economy, policy, ownership structure and a weak legal system compared to other developed and developing countries. Thus, the study focuses empirically on a unique variable, independence of royal family members (royal group) on

the board who offer the company prestige and a good reputation due to their status, wealth and power. Therefore, The research questions contribute to the limited literature on the impact of prestige and power of the board of directors (Certo, 1993). The thesis also provides insight to politically connected firm literature (the presence of royal family members on the board) using agency theory.

The results reported in Chapter 5 (CG and EQ) offer specific theoretical contributions by providing empirical evidence to agency theory. The findings also provide evidence that earnings management (EM) exists in the region and a number of CG mechanisms (independence of royal family members on the board) reduces the EM, which increases EQ. These results are explained using agency theory. Moreover, The study finds that CEO duality exhibits a negative effect on AWCA which is a contrary finding to the recommended code and the majority of the extant literature. This supports new literature review illustrating the positive influence of CEO on the board. However, The result should be taken with caution as the investigation of CEO duality should be considered with characteristics of the firm such as growth (Gill & Mathur, 2011). The interaction term between CEO duality and firm growth provides more logical findings that the CEO duality has a higher cost on firm EQ in high growth companies.

The findings of Chapter 6 (CG, firm performance and firm value) offer a number of contributions to the academic literature. To the best of my knowledge, The study of GCC countries is the first study to include a number of unique features in this region. The study goes beyond the tradition of investigating CG attributes by including relatives, females, royal members, government officials and an audit committee. The perspective of agency theory provides an adequate analysis of the effect of CG on a firm's performance and firm value. For instance, the results reveal that the ratio of royal family members on the board and Big4 audit firms can provide the company with adequate monitoring. The finding provides empirical support to agency theory as a notable contribution to the empirical literature and thus validates the theory. In addition, the research finds the Principal component analysis (PCA) to be more suitable than the CG index to avoid measurement error. The results from this process are in line with recommendations of CG code and prior studies (Larcker et al., 2007). The research uses a second model and results show that board size and family ownership provide a positive effect on firm performance and firm value and the results are in line with existing agency theory.

With regard to both Chapters 5 (CG and EQ) and 6 (CG and firm performance), most of the studies in the literature in GCC countries do not consider the uniqueness of an institutional setting, which is the involvement of the royal family member on the board of directors. These variables represent the uniqueness of the environment to this market. Hence, examining the effect of royal family members in the region may provide a more realistic conclusion with regard to CG practice there. The findings highlight that a royal family member on the board is influencing internal CG practice in the region. These groups ought not to be ignored when examining CG practice in GCC countries. Chapter 7 (royal families, firm performance and firm value) provides a number of contributions as it focuses mainly on the attributes of royal family members in Saudi Arabia. The development of “attendance of royal family members at board meetings” by merging the royal family members proxy and board meetings proxy is considered a contribution to critically understanding the power and role of royal family members. In addition, the results suggest that agency theory does not fully explain the influence of royal family members on the board on firm performance and firm value. For instance, the results show that the independence of royal family members enhances firm performance and firm value. These findings validate the perspective of agency theory. However, the Royal Highness independent director has a negative effect on firm value, which does not support agency theory perspective. Thus, there is still a need for further development of the theory related to the royal family members and multi-dimensions of CG to meaningfully explain the influence of royal members on the governance structure, firm performance and firm value. There is a need of theory that reflects the culture and environment of the country in order to eliminate future business scandals. To further explain this point, the research argues that the market efficiency, behavior of board of directors and practice of CG in emerging markets differs to that of a developed market.

According to Marquis & Raynard, (2015) and Barkema et al., (2015) theories that have been established for developed market may not adequately examine, explain and analyze the data in various markets such as developing markets phenomenon and thus, there is a need for new theories to describe and explain the logical aspect of these behaviors based on these markets. Therefore, these new theories enable us to see things from new angles and perspectives to understand and help the investors to make an informed decision. Having new theories of emerging markets would add new knowledge to this discipline. Agency theory⁸⁹ does not fully

⁸⁹ Different theories have different objectives and perspectives, and no one theory can adequately explain management behavior (Deegan & Unerman, 2011).

explain each aspect of this research especially for question three. Furthermore, the findings of The study provide a new insight, which is a promising avenue to advance our knowledge of governance features in developing countries generally and CG.

8.4.B.Practical Implications

With respect to Chapter 5 (CG and EQ), policymakers and investors, especially minority and foreign investors, are becoming increasingly aware of the fact that good CG practice improves the quality and accuracy of financial reporting. Unreliable financial information is associated with loose governance and opportunistic behaviour from managers (Giroux, 2004). Therefore, interested parties such as policymakers, existing and potential investors may consider the outcomes from this study in their decision-making and evaluate the CG environment in the region. For instance, The study finds evidence that the CEOD (CEO duality) contributes positively to EQ in GCC countries. This finding has an obvious implication for policymakers in GCC countries. Thus, it is important for policymakers to encourage the implementation of this finding in some firms. This is contrary to the current CG code. To explain this argument further, the research of CG should be interested in investigating and checking the effective governance system that ensures the long-term success of the firm, maximizing and protecting the interest of shareholders. Regulators in many countries and a number of scholars call for and suggest for a common governance structure such as the separation of two role of top corporate leadership structure (CEO and Chairman of the board) to achieve an effective governance system and practice (Kim, 2013). This structure may not necessarily be the best due to firm and country characteristics being ignored (Faleye, 2007). For instance, corporates might have a complex structure and operate in a complex business environment. Thus, the CEO duality is more applicable to provide flexibility and accountability in corporate leadership (Pfeffer &Slancik, 1978; Dahya et al., 1996; Finkelstein and D'Aveni, 1994).

For the last number of decades, even in academic literature, there have been inconsistent results with regards to CEO duality versus non- duality (Iyengar & Zampelli, 2009; Dalton & Dalton, 2011). Theoretically, agency theory strongly recommends the separation between two roles of leadership, emphasizing the separation of powers for effective checks and balances in CG. This emphasis causes researchers to pay less attention to the benefit of combined leadership (CEO duality) on corporate which increases the potential efficiency of a CEO duality on the structure of the board. Obviously, there is a cost and benefit of CEO duality (Brickley et al., 1997 and Harrison et al., 1988). Importantly, there is a growing literature that supports the claim that CEO

duality enhances the firm's ability to extend. The literature claims that the unity of leadership provides more focused and flexible leadership, which helps to increase firm effectiveness, especially in a dynamic business environment (Pfeffer & Slancik, 1978; Dahya et al., 1996; Finkelstein and D'Aveni, 1994). According to Kim, (2013) a high number of large companies in US still adopt and encourage having CEO duality even though there a heated debate and criticism of this adoption. The management of US companies believe that the adoption of combined leadership reduces the coordination cost and information asymmetries between executives and board members. Kim (2013) also emphasizes that firms are supposed to choose leadership structure (separation or combination of two roles) based on the specific nature of companies characteristics operations and CG environment. Specifically, he concludes that the more complex of the firm is more likely to have CEO duality because the benefit outweighs the cost in terms of flexibility and reducing the information symmetries and access to the information in a timely manner.

There are probably other powers on the board that reduce the concentration of power in the hands of CEO duality such as having independent royal family members on the board who may act as chairman rather than regular independent directors on the board. Naturally, CEOs have unique, firm-specific information about production and competitive conditions. Having a CEO with combined leadership is important to achieve the overall corporate objectives to keep the organization in business, and to create a greater prospect for future opportunities in the domestic and global market. The board of directors and the CEO duality play an important role in the growth of the firm (Rutledge et al., 2016). This result enhances our understanding of the implication CEO duality has on a firm's corporate strategy depending on the context within which CEO duality is being examined. There is a clear difference between emerging markets and developed markets in terms of the nature and the extent of governance problems. However, this result should be taken with caution and considering firm characteristics.

Policymakers may also encourage more involvement of independent royal family members as they increase shareholders' protection and financial reporting quality, and reduce EM. In addition, the result indicates that investors should be aware of the positive influence of independent royal family members involvement on the board of directors. The independent royal family members may act as chairman on the board rather than regular independent director on the board. Thus, foreign and minority investors should note that investing in listed companies where independent royal family members are present on the board benefits their investment and reduces the risk,

uncertainty and EM. In addition, the thesis provides information to shareholders concerning the presence of royal family members on the board of directors which reduces the shareholders' return and the royal group may act opportunistically for their own benefit.

Furthermore, there is no relationship found between regular independent directors (IND) and earnings quality in question one. However, in question two, few cases found of a positive effect of IND on firm performance but these results are not robust across measurements. Thus, these findings also have important implications for policymakers and investors. Policymakers should focus on the improvement and restriction of the requirements and procedures of nominating independent directors on the board. These reform procedures would affect their role positively by providing adequate monitoring and overseeing the financial reporting process, which leads to high EQ, firm performance and firm value. In other words, in order to enforce the CG code correctly, policymakers should commit to implementing better CG, ensuring the nomination of genuinely independent directors. Policymakers should promote training courses for independent directors through developing their skills and capabilities. However, a new literature argues that the domination of outsiders or independent directors on the board is not always desirable (Bhagat & Black, 2002; Peasnell et al., 2003). In fact, the recent literature (Liu et al., 2012, 2015) argues that the role and importance of independent directors are shaped by different constraints and opportunities in different institutional environments or settings. Brickley & James (1987) and Jensen (1993) claim that independent directors are part time and non -employee directors with no business or personal relationship with the firm or its directors, so they can effectively monitoring the CEO. On average, GCC companies have few independent directors on the board compared to other countries. According to the Union of Arab Banks (2003), investigations of the CG practice in public listed companies in Kuwait, SA and the UAE, besides other countries, namely Lebanon and Jordan, find that there are few truly independent directors on boards. In addition, firms are more likely to follow CG code symbolically in the selection of independent directors and to copy CG style in western countries (Ferrarini & Filopelli, 2014). However, in most emerging markets, the controlling shareholders are more likely to intervene in the selection of independent directors to impede the monitoring role of independent directors and ensure greater private benefit of control (Liu et al., 2013; Tang et al., 2010). It is still an important issue in emerging economies to ensure the independence of outside directors. Thus, arrangements of governance established for developed economies may be less effective in emerging market environments (Chen, Li, & Shapiro, 2011).

In Chapter 6 (CG and firm performance), as the power and expertise of board members enhance firm performance and firm value, should also encourage more engagement of royal family members on the board. They could consider hiring one of the Big-4 audit companies too.

The findings in Chapter 7 (royal family members and firm performance and firm value) have an important impact on policymakers and investors. With regard to policy makers, a best practice of CG should be enforced to promote confidence in the economy. The study also recommends that they should re-evaluate the existing CG code in the region in a way that would encourage independent royal family members on the board to put more emphasis on long-term creation of shareholder value, which leads to a healthier company with lower risk and more stability in the market, rather than focusing on short-term returns and performance. This would build confidence in investors and shareholders. Thus, the results provide insight to policymakers; in additional CG tool is probably required to enhance its effectiveness in the region. The results of Chapter 7 also show a number of the implications to investors with regard to the attendance of royal family members. The attendance of independent royal directors is important to increase firm value.

In summary, it is clear that no country has the best CG practice (Megginson et al., 2006) and there is a need to form an effective CG code. In other words, while CG practice in the region improves, it still lags behind international CG practice and should be further strengthened (Amico, 2014). Therefore, the empirical evidence from the research offers a general recommendation to policymakers. The findings of the study are important for the GCC region, as the empirical findings in other emerging markets cannot be generalised given the varying regulatory environments and other contexts. Thus, the findings highlight the need for listed companies in the region to improve CG practice in order to benefit from it. The results would help investors to understand the effect of ownership structure of listed companies in the region. In particular, it is clear from the findings that a decision needs to be made as to which parts of the CG code need to be reformed and revised, in order for it to be more appropriate to the region in question. This would also allow for the best protection for all shareholders, in particular minority shareholders.

The results also indicate that fostering CG in the region helps to develop stock markets to compete internationally, to enhance market activities, to attract more local and foreign investors and to construct a more robust domestic capital market. In addition, reforming CG code in the region has the potential for more transparent disclosure of financial information leading to better performance, value and higher EQ. Policymakers should be involved by encouraging greater

disclosure of information⁹⁰ to increase communication and comparability of earnings across firms and representation of minority shareholders, which would have the added benefit of helping to protect their interest. This would help investors to choose the appropriate opportunities for potential investment. Finally, policymakers in the region should continue to support the CG code in order to be as efficient as possible (Amico, 2014).

8.5. Limitation of the work and future avenues for research

While tackling this subject, the research questions face a number of limitations. However, the thesis offers significant opportunities for future work stemming from these limitations. One of the main limitations for Chapters 5 (CG and EQ) and 6 (CG, firm performance and firm value) is that the thesis could not include Kuwait due to missing data and the CG code has just been implemented. It would be interesting for future research to include it to the group and compare the results. In addition, the sample size of Bahrain is very small, which may not represent a true picture. Future research could consider using a larger sample size and could also cover a longer period of time, especially for individual countries, such as Bahrain. Furthermore, the thesis does not use the particular position of royal family members on the board such as executives, and non-executives to avoid harmful measurement errors when increasing the number of variables. Thus, future research may consider the different status of these groups. It would be interesting to evaluate the relationship between variables CG, EQ, firm performance and firm value using different definitions of family, state and institutional ownership. Future studies could consider using a different model to measure EQ, firm performance and firm value. This would give a more thorough understanding and a clearer picture of the effect of CG on EQ, firm performance, and firm value.

In addition, to answering research questions one (Chapter 5) and two (Chapter 6), the thesis does not distinguish between the various kinds of institutional ownership (short-term and long-term goals) and it is important to explore this further. It might also be interesting for future research to examine the interaction between internal and external CG in the region and their effect on EQ, firm performance, and firm value. In Chapter 6, even though the involvement of females on the board of directors is rare, due to cultural and social norms in the region, the investigation of their effect on EQ, firm performance and firm value is quite important. Recently, there has been pressure on firms to involve more female directors on the board. An interesting avenue for research might be to make a distinction between executive and non-executive female directors

⁹⁰ A lack of informative disclosure is a significant barrier to encouraging more investors into the market.

and their influence on a firm's performance and firm value. Also, a significant area for future research may be to consider the educational qualification of the board of directors (Salterio et al., 2013), giving a more in-depth analysis of their influence in the firm's operation.

In Chapter 7 (royal family members, firm performance, and firm value), the research question only investigates Saudi Arabia and the timeline covers just five years due to a limitation of data available in the public domain. However, to date, royal family members on the board have received little attention. Thus, this research question is a starting point for future research to build from and to understand the effect the royal family director has on a firm's performance and firm value. Therefore, a possible avenue of future research would be to extend this topic to other GCC countries, using longitudinal studies and to update the study. It would be interesting to also include age, experience, busyness, qualification of royal family members and the number of years that royal family members have held since election onto the board. It might be interesting to examine the foreign politician, which may be viewed differently by shareholders. Considering other ownership structures such as institutional, family and state ownership would be interesting to investigate, besides the effect of royal family members. Future studies could account for different CG variables such as multi-directorship of royal family members on boards and the involvement of royal family members in an audit committee, remuneration and nomination committee. In addition, using surveys and interviews would provide richer data to enhance the understanding of royal family members in the region for adoption. All of this could be used to develop a theory, which could be tested empirically. The developed perspective from research question three could be used in other countries with similar phenomena.

There is a common area among the three research questions to further the understanding of CG in GCC countries. Firstly, the economies of GCC countries is totally dependent on oil revenues. Moreover, oil prices significantly affect the fluctuation of stock markets in this region. According to Held & Ulrichsen, (2013), the bellwether indices of GCC stock performance strongly correlates with oil prices because "hydrocarbon related companies" comprise a large share of the total market capitalization. Therefore, it would be an interesting and promising area of research to use oil prices as a control variable when examining the effect of CG on EQ or firm performance, and firm value in the region.

Notably, the role of bondholders differs from the role of shareholders. It would be interesting to investigate the effect of CG on EQ, firm performance and firm value in bond markets rather than

equity markets in GCC countries (Klock et al., 2005; Jiraporn et al., 2013). This would deepen the understanding from different perspectives such as the effect of bondholders monitoring EQ, firm performance and firm value to see how important CG is.

There is a significant area for future research investigating financial and bank sectors as well as non-financial sectors. Another interesting direction for future research might be to use a different methodological approach such as a qualitative method (questionnaires, case study and interview) to get a deeper understanding of the impact of CG on EQ, firm performance and firm value. It would also be interesting to investigate how the policymaker empowers and strengthens the enforcement of CG practice in the region to curb agency cost and increase EQ firm performance and firm value through the best practice of CG mechanisms.

Regarding the selection of variables (choice of directors), there are specific requirements and criteria of independent directors in CG code to ensure the protection of shareholders, especially minority shareholders. However, controlling shareholders can involve in selection process and can hinder the independent directors from playing a monitoring role due to the weak protection of minority shareholders (Ye & Li, 2017). In addition, independent, politically-connected directors may not be truly independent from the control of government and so may distort the role of independent directors in order to protect all shareholders' interests (Wang, 2015). According to Adams et al., 2010, "outside directors are often considered to be independent directors, yet the definition of an outsider is questionable. Examples of such a director are lawyers and bankers who do business with a company" (Menozzi et al., 2011).

Due to limited disclosure of CG information in GCC countries, the study cannot specify which channels independent directors or royal family members are elected through, for instance, appointing through nomination committee, royal decree or others. Furthermore, prior literature from emerging countries, in general and GCC countries, in particular claim that the appointment of independent directors is based on connection. Thus, independent directors can play different roles across different settings based on appointing or selecting channels (Ye & Li, 2017). However, due to the limitation of data in the public domain, it is really hard to find the data to measure the connectedness and the influence that selects directors to be independent directors on the board. It is also difficult to find what the different influences are between independent directors who are appointed through a nomination committee and independent directors who are selected through a connection with firm EQ, firm performance and firm value in GCC countries.

The dissertation seeks to encourage future research to handle this issue to extend the literature of corporate governance in GCC countries.

8.6. Final Conclusion

This chapter provides a conclusion of the thesis. Therefore, the structure of the chapter is as follows: Section 8.1 provides an introduction in terms of the research problem and the research questions. Section 8.2 offers a brief synopsis of the thesis chapters, which include the institutional setting and theoretical framework in Chapter 2 and the literature review in Chapter 3. The methodology of the research questions is looked at in Chapter 4 and the discussion of analysis and results of three research questions are studied in Chapters 5, 6 and 7. Section 8.3 offers the theoretical contributions and practical implications of the results. Section 8.4 outlines the limitation of the results and suggested areas for future research stemming from these limitations.

The three research questions offer a unique analysis of the effect of CG on EQ, firm performance, and firm value in five GCC countries with particular attention on royal family members on the board. Thus, the empirical results from these questions confirm the assertion that CG is an important mechanism to enhance firm EQ, firm performance, and firm value. Therefore, with consideration of institutional settings as a monarchy country and the involvement of the royal directors on the board, the primary conclusion of the thesis is that CG attributes are factors that affect firm EQ, firm performance and firm value, which affect shareholders, especially minority ones in GCC countries. This also implies that besides being committed to the promotion of CG, policymakers should revise and reform these codes further to reflect the nature of these countries with more emphasis on transparent disclosure, in order to attract more capital and investment.

The findings contribute to the academic literature in the field of CG and provide avenues for future research to consider the uniqueness of institutional setting. The findings also offer significant insight and practical benefits to policymakers and existing, potential, domestic and foreign investors. Ultimately, good CG reduces the vulnerability of emerging markets to financial failure, lower risk, increase productivity and economic value. Finally, the thesis achieves its main objective and answers the three research questions. The findings of the thesis are in agreement with the literature in developing countries.

Appendix A: Survey letter

Dear Sir/Madam:

This is Zahra AL-Nasser who is a full time Ph.D. student in school of business at Trinity Dublin College, Ireland. I am currently working on my research to investigate the effect of internal corporate governance (board of directors' characteristics and ownership structure) on earnings quality in Gulf Cooperation Council (GCC) countries. My research is intended to examine listed companies in GCC stock markets. As the corporate governance information is not fully available in public information, I would not be able to proceed with my research. Therefore, I highly appreciate your cooperation, as your involvement will be a significant contribution in my research. I will be gratified if you could provide me with below mentioned information for your company.

Please refer to the table below, which is an important part for my research to provide empirical evidence. I also would like to confirm that I am familiar with Data Protection Act and The College Good Research Practice Guideline. In addition, the information provided by you would be fully treated with confidentiality and name of organization won't be identified within the research. Please feel free to provide your honest answer since the data will be statistically analyzed and none of the response will be analyzed individually. If you need any further query regarding the research or questionnaire, please contact me through email: alnaszez@tcd.ie.

Questionnaire:

Boar of directors	2013	2012	2011	2010	2009
1- Number of board of directors					
2- Number of independent directors on board of directors					
3- Number of board of directors' meetings					
4- Is the chairman of board of director and CEO hold the same position? (Yes or No)					
5- What is the longest period of time an independent director has been on board of directors? (Number of years)					
6- What is the shortest period of time an independent director has been on board of directors? (Number of years)					
7- Size of audit committee (number of directors in audit committee)					
8- Number of independent directors in audit committee					
9- Number of audit committee meetings					
10- Is there at least one independent director has financial or accounting expertise? (Yes or No)					

Looking forward to hearing back from you,
Zahra AL-Nasser

Appendix B: CG and EQ

Figure 6 Normal Probability Plots of CG and EQ⁹¹

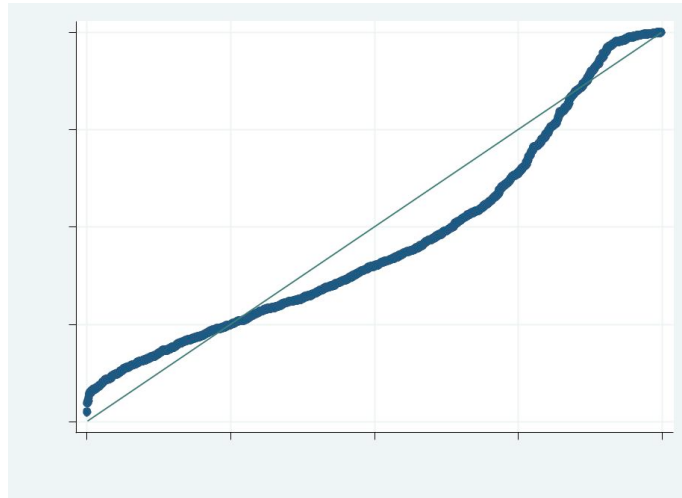
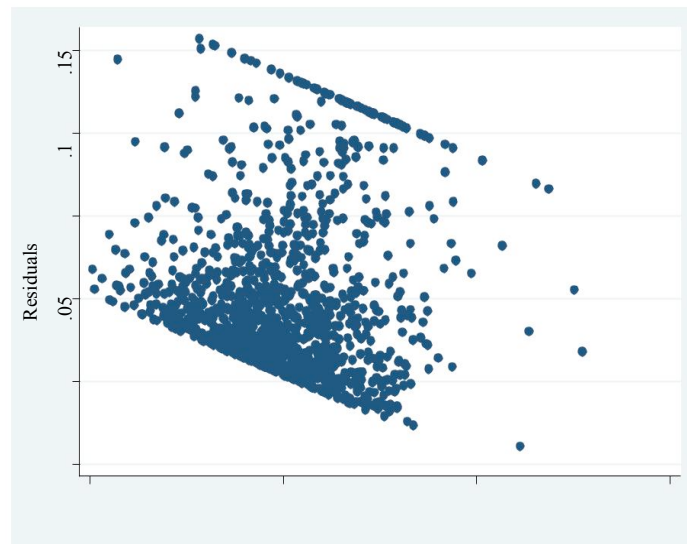


Figure 7 The Residual Versus Fitted Values Plot for CG and EQ



⁹¹ These results before the transformation of the variables.

Table B.1. (AWCA)-Stationarity Test- CG and EQ

Variable	Inverse chi-squared P		Inverse normal Z		Inverse logit L		Modified inv. chi-squared pm	
	Stat	p-value	Stat	p-value	stat	p-value	stat	p-value
AWCA	1837.867	0	-15.480	0	-27.272	0	42.904	0
FAMC	285.151	1	-6.748	0	-12.388	0	-6.594	1
STATC	37.383	1	1.247	0.894	1.230	0.889	-14.492	1
INSTITC	134.325	1	1.211	0.887	-2.361	0.009	-11.402	1
CEOD	12.648	1	1.407	0.920	1.339	0.907	-15.281	1
IND	618.162	0.000	-3.45	0.000	-8.741	0	4.021	0
ROYAL	94.167	1	-1.269	0.102	-4.241	0	-12.682	1
AUDITEX	295.378	1	-3.233	0.000	-6.704	0	-6.268	1
BSIZE	126.110	1	-1.501	0.066	-1.581	0.057	-11.664	1
GROWTH	2327.460	0	-19.712	0	-36.991	0	58.512	0
LEVERAGE	1607.576	0	-8.192	0	-20.047	0	35.563	0
BIG4	34.425	1	3.467	0.999	3.266	0.999	-14.587	1

Table B.2.A. (AWCA)-AIC and BIC Test-CG and EQ

	M1	M2	M3	M4	M5	M6	M7	M8
	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC
aic	-3867.33	-3865.83	-3863.69	-3861.7	-3899.12	-3904.14	-3902.3	-3955.89
bic	-3846.94	-3840.35	-3812.72	-3805.62	-3822.66	-3822.58	-3800.35	-3787.67

Table B.2.B. (LN_AWCA)-Step-Wise Test- CG and EQ

	M1	M2	M3	M4	M5	M6	M7	M8
FAMC_DUMMY	-0.007	-0.007	-0.006	-0.006	-0.006	-0.010	-0.010	-0.006
	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
STATC_DUMMY	-0.021***	-0.020***	-0.021***	-0.021***	-0.021***	-0.019***	-0.016**	-0.012*
	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
INSTITC_DUMMY	-0.004	-0.003	-0.003	-0.003	-0.003	-0.005	-0.006	-0.001
	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
CEOD		0.003	0.004	0.004	0.004	0.007	0.007	0.006
		-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
IND			-0.001	-0.001	-0.001	-0.005	-0.009	-0.010*
			-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
ROYAL			0.094*	0.094*	0.094*	0.132**	0.135**	0.106*
			-0.06	-0.06	-0.06	-0.06	-0.06	-0.06
IND_ROYAL			-0.190**	-0.190**	-0.190**	-0.207**	-0.193**	-0.160*
			-0.09	-0.09	-0.09	-0.09	-0.09	-0.09
AUDITEX				-0.000	-0.000	0.006	0.006	-0.001
				-0.01	-0.01	-0.01	-0.01	-0.01
LN_BSIZE						-0.033***	-0.019	-0.013
						-0.01	-0.01	-0.01
LN_GROWTH						0.050***	0.055***	0.064***
						-0.01	-0.02	-0.02
LN_LEVERAGE						0.039***	0.049***	0.051***
						-0.01	-0.01	-0.01
BIG4						-0.009***	-0.008***	-0.003
						0	0	0
LN_SIZE							-0.003***	-0.007***
							0	0
_CONS	0.059***	0.058***	0.058***	0.059***	0.059***	0.127***	0.131***	0.179***
	-0.01	-0.01	-0.01	-0.01	-0.01	-0.03	-0.03	-0.03
R2	0.022	0.0224	0.0276	0.0276	0.0276	0.0635	0.0751	0.1477
N	1209	1209	1209	1209	1209	1209	1209	1209

Table B.3.A. (LN_AWCA)-OLS and Panel Data Regression of CG and EQ- GCC Countries							
Main	Expected sign	OLS	OLS2	OLS3	RE	RE2	RE3
_CONS		0.147***	0.132***	0.142***	0.142***	0.125***	0.138***
		-0.03	-0.03	-0.03	-0.04	-0.04	-0.04
FAMC_DUMMY	+	-0.007			-0.008		
		-0.01			-0.01		
FAMC	+		-0.025			-0.019	
			-0.02			-0.03	
FAMC2	-		0.035			0.029	
			-0.04			-0.05	
STATC_DUMMY	+	-0.011			-0.012		
		-0.01			-0.01		
STATC	+		0.024			-0.07	
			-0.18			-0.15	
STATC2	-		-0.49			-0.017	
			-0.73			-0.6	
INSTITC_DUMMY	-	-0.005			-0.005		
		-0.01			-0.01		
INSTITC	-		-0.142*			-0.130*	
			-0.09			-0.07	
INSTITC2	-		0.484			0.4	
			-0.47			-0.45	
OWN	+			0			0
				-0.01			-0.01
CEOD	+	-0.001	0.01	-0.001	-0.017	-0.011	-0.016
		-0.02	-0.02	-0.02	-0.01	-0.02	-0.01
IND	-	-0.009	-0.007	-0.008	-0.006	-0.006	-0.005
		-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
ROYAL	-	0.122**	0.105	0.128**	0.103	0.107	0.11
		-0.06	-0.07	-0.06	-0.09	-0.09	-0.09
IND_ROYAL	-	-0.153*	-0.149	-0.151*	-0.143	-0.165	-0.141
		-0.09	-0.1	-0.09	-0.11	-0.13	-0.11
AUDITEX	-	0	0.018	0.002	-0.002	0.019	0.001
		-0.01	-0.02	-0.01	-0.02	-0.02	-0.02
LN_BSIZE	-	-0.018	-0.017	-0.016	-0.018	-0.017	-0.016
		-0.01	-0.01	-0.01	-0.01	-0.02	-0.01
LN_GROWTH	+	0.060***	0.043*	0.062***	0.065***	0.050**	0.066***
		-0.02	-0.02	-0.02	-0.02	-0.02	-0.02
CEOD_GROWTH	+	0.054	0.003	0.054	0.104	0.087	0.104

		-0.09	-0.12	-0.09	-0.08	-0.1	-0.08
LN_LEVERAGE	+	0.050***	0.057***	0.052***	0.043***	0.054***	0.045***
		-0.01	-0.01	-0.01	-0.01	-0.02	-0.01
LN_SIZE	-	-0.005***	-0.005***	-0.006***	-0.005***	-0.005**	-0.005***
		0	0	0	0	0	0
BIG4	-	-0.005	-0.004	-0.005	-0.004	-0.003	-0.004
		0	0	0	0	0	0
YEAR DUMMY		Yes	Yes	Yes	Yes	Yes	Yes
INDUSTRY DUMMY		Yes	Yes	Yes	Yes	Yes	Yes
COUNTRY DUMMY		Yes	Yes	Yes	Yes	Yes	Yes
R2		0.133	0.129	0.13			
N		1209	943	1215	1209	943	1215

Notes :*, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_AWCA is the natural logarithm of the absolute value of abnormal working capital accrual based on Defond and Park, 2001 model scaled by beginning to *FAMC_DUMMY* is a dummy variable of family ownership. *STATC_DUMMY* is a dummy variable of state ownership. *INSTITC_DUMMY* is a dummy variable of institutional ownership. *FAMC*, *STATC*, and *INSTATC* are the percentage of family ownership, state ownership and institutional ownership respectively. *FAMC2* and *INSTATC2* are the square term of family ownership, state ownership and institutional ownership respectively. *OWN* is the ownership concentration. *CEOD* variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *IND* is the ratio of independent director to the total director is the ratio of royal family member to the total directors. *IND_ROYAL* is interaction term between independent directors and royal family members. *AUDITEX* is t member with financial or accounting expertise to the total director. *LN_BSIZE* is natural logarithm of the board size. *LN_GROWTH* is the natural logarithm of t change in net sales divided by total assets. *CEOD_GROWTH* is interaction term between CEO duality and firm growth. *LN_LEVEVERGE* is the natural logarithm liabilities divided by total assets. *LN_SIZE* is the natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited the BIG4 and zero otherwise.

Table B.3.B Model Specification for The Individual Country: CG and EQ

Model of SA:

$$\begin{aligned} = & \alpha + \beta_1 \text{FAMC DUMMY}_{it} + \beta_2 \text{STATC DUMMY}_{it} + \beta_3 \text{INSTATC DUMMY}_{it} \\ & + \beta_4 \text{IND}_{it} + \beta_5 \text{ROYAL}_{it} + \beta_6 \text{IND ROYAL}_{it} + \beta_7 \text{AUDITEX}_{it} \\ & + \beta_8 \text{LN BSIZE}_{it} + \beta_9 \text{LN GROWTH}_{it} + \beta_{10} \text{LN LEVERAGE}_{it} \\ & + \beta_{11} \text{LN SIZE}_{it} + \beta_{12} \text{BIG 4}_{it} + \text{INDUSTRY DUMMY} \\ & + \text{YEAR DUMMY} + \varepsilon_{it} \end{aligned}$$

Model of Oman:

$$\begin{aligned} \text{LN AWCA}_{it} = & \alpha + \beta_1 \text{CEOD}_{it} + \beta_2 \text{IND}_{it} + \beta_3 \text{ROYAL}_{it} + \beta_4 \text{IND ROYAL}_{it} \\ & + \beta_5 \text{AUDITEX}_{it} + \beta_6 \text{LN BSIZE}_{it} + \beta_7 \text{LN LEVERAGE}_{it} \\ & + \beta_8 \text{LN SIZE}_{it} + \beta_9 \text{BIG 4}_{it} + \text{INDUSTRY DUMMY} \\ & + \text{YEAR DUMMY} + \varepsilon_{it} \end{aligned}$$

Model of Qatar:

$$\begin{aligned} \text{LN AWCA}_{it} = & \alpha + \beta_1 \text{CEOD}_{it} + \beta_2 \text{IND}_{it} + \beta_3 \text{ROYAL}_{it} + \beta_4 \text{IND ROYAL}_{it} \\ & + \beta_5 \text{AUDITEX}_{it} + \beta_6 \text{LN BSIZE}_{it} + \beta_7 \text{LN GROWTH}_{it} \\ & + \beta_8 \text{CEOD GROWTH}_{it} + \beta_9 \text{LN LEVERAGE}_{it} + \beta_{10} \text{LN SIZE}_{it} \\ & + \beta_{11} \text{BIG 4}_{it} + \text{INDUSTRY DUMMY} + \text{YEAR DUMMY} + \varepsilon_{it} \end{aligned}$$

Model of Bahrain:

$$\begin{aligned} \text{LN AWCA}_{it} = & \alpha + \beta_1 \text{IND}_{it} + \beta_2 \text{ROYAL}_{it} + \beta_3 \text{IND ROYAL}_{it} + \beta_4 \text{AUDITEX}_{it} \\ & + \beta_5 \text{LN GROWTH}_{it} + \beta_6 \text{LN LEVERAGE}_{it} + \beta_7 \text{LN SIZE}_{it} \\ & + \text{INDUSTRY DUMMY} + \text{YEAR DUMMY} + \varepsilon_{it} \end{aligned}$$

Model of UAE :

$$\begin{aligned} \text{LN AWCA}_{it} = & \alpha + \beta_1 \text{CEOD}_{it} + \beta_2 \text{IND}_{it} + \beta_3 \text{ROYAL}_{it} + \beta_4 \text{IND ROYAL}_{it} \\ & + \beta_5 \text{AUDITEX}_{it} + \beta_6 \text{LN BSIZE}_{it} + \beta_7 \text{LN GROWTH}_{it} \\ & + \beta_8 \text{CEOD GROWTH}_{it} + \beta_9 \text{LN LEVERAGE}_{it} + \beta_{10} \text{LN SIZE}_{it} \\ & + \beta_{11} \text{BIG 4}_{it} + \text{INDUSTRY DUMMY} + \text{YEAR DUMMY} + \varepsilon_{it} \end{aligned}$$

Model of Abu Dhabi :

$$\begin{aligned} \text{LN AWCA}_{it} = & \alpha + \beta_1 \text{CEOD}_{it} + \beta_2 \text{IND}_{it} + \beta_3 \text{ROYAL}_{it} + \beta_4 \text{IND ROYAL}_{it} \\ & + \beta_5 \text{AUDITEX}_{it} + \beta_6 \text{LN BSIZE}_{it} + \beta_7 \text{LN GROWTH}_{it} \\ & + \beta_8 \text{CEOD GROWTH}_{it} + \beta_9 \text{LN LEVERAGE}_{it} + \beta_{10} \text{LN SIZE}_{it} \\ & + \beta_{11} \text{BIG 4}_{it} + \text{INDUSTRY DUMMY} + \text{YEAR DUMMY} + \varepsilon_{it} \end{aligned}$$

Model of Dubai:

$$\begin{aligned} \text{LN AWCA}_{it} = & \alpha + \beta_1 \text{CEOD}_{it} + \beta_2 \text{IND}_{it} + \beta_3 \text{ROYAL}_{it} + \beta_4 \text{IND ROYAL}_{it} \\ & + \beta_5 \text{AUDITEX}_{it} + \beta_6 \text{LN GROWTH}_{it} + \beta_7 \text{CEOD GROWTH}_{it} \\ & + \beta_8 \text{LN LEVERAGE}_{it} + \beta_9 \text{LN SIZE}_{it} + \text{INDUSTRY DUMMY} \\ & + \text{YEAR DUMMY} + \varepsilon_{it} \end{aligned}$$

Table B.4. (AAA)-ROBUSTNESS TEST- Descriptive Statistics of CG and EQ- GCC Countries

Variable	Mean	Median	Std. Dev.	Min	Max
AAA	0.031	0.024	0.030	0	0.180
FAMC	0.136	0.062	0.185	0	0.991
STATC	0.137	0	0.207	0	0.836
INSTITC	0.228	0.141	0.263	0	1
CEOD	0.069	0	0.254	0	1
IND	0.598	0.571	0.280	0	1
ROYAL	0.027	0	0.054	0	0.2
AUDITEX	0.279	0.333	0.100	0	0.5
BSIZE	7.864	8	1.694	4	18
GROWTH	0.038	0.019	0.117	-0.186	0.336
LEVERAGE	0.387	0.368	0.225	0.072	0.822
LN_SIZE	12.639	12.537	1.683	10.023	16.072
BIG4	0.623	1	0.484	0	1

N=1,208

Notes: AAA is the absolute value of accrual accounting based on Modified Jones model, 1995 model scaled by beginning total assets. FAMC is the percentage of family shareholders. STATC is the percentage of state shareholders. INSTITC is the percentage of institutional shareholders. CEOD a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. IND is the ratio of independent director to the total directors. ROYAL is the ratio of royal family member to the total directors. AUDITEX is the ratio of member with financial or accounting expertise to the total director. BSIZE is the total number of directors on the board. GROWTH is the annual change in net sales divided by total assets. LEVEVERGE is calculated as total liabilities over total assets. LN_SIZE is the natural logarithm of firm size BIG4 is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table B.5. (AAA)-ROBUSTNESS TEST- Correlation Matrix – CG and EQ- GCC Countries

	AAA	FAMC	STATC	INSTITC	CEOD	IND	ROYAL	AUDITEX	BSIZE	GROWTH	LEVERAGE	LN_SIZE	BIG4	VIF
AAA	1													
FAMC	0.104*	1												1.37
STATC	-0.141*	-0.286*	1											1.36
INSTITC	0.097*	-0.208*	-0.256*	1										1.5
CEOD	-0.032	0.059*	-0.063*	-0.097*	1									1.04
IND	0.050	-0.006	-0.091*	0.179*	-0.061*	1								1.14
ROYAL	-0.054	0.018	-0.013	-0.067*	0.064*	-0.111*	1							1.08
AUDITEX	0.013	-0.019	-0.145*	-0.031	-0.030	0.083*	-0.036	1						1.07
BSIZE	-0.138*	-0.162*	0.055	-0.150*	0.039	-0.190*	0.099*	-0.036	1					1.26
GROWTH	0.039*	0.040	-0.073*	0.063*	-0.051	0.002	-0.046	-0.005	-0.022	1				1.03
LEVERAGE	0.057*	0.090*	-0.033	0.166*	-0.107*	0.082*	-0.100*	0.000	-0.056*	0.100*	1			1.28
LN_SIZE	-0.180*	-0.198*	0.314*	-0.333*	0.024	-0.293*	0.147*	-0.062*	0.400*	-0.0118	0.207*	1		1.83
BIG4	-0.061*	-0.103*	0.122*	0.027	-0.036	-0.051	0.123*	0.101*	0.107*	0.101*	0.138*	0.208*	1	1.13

Notes: AAA is the absolute value of accrual accounting based on Modified Jones model, 1995 model scaled by beginning total assets. FAMC is the percentage of family ownership. STATC is the percentage of state ownership. INSTITC is the percentage of institutional ownership. CEOD a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and zero otherwise. IND is the ratio of independent director to the total directors. ROYAL is the ratio of royal family member to the total directors. AUDITEX is the ratio of member with financial or accounting expertise to the total director. BSIZE is board size. GROWTH is the annual change in net sales divided by total assets. LEVERAGE is total liabilities divided by total assets. LN_SIZE is the natural logarithm of total assets. BIG4 is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table B.6.A. (LN_AAA)-ROBUSTNESS TEST- GMM Regression of CG and EQ- GCC Countries

	Expected sign	Model 1	Model 2	Model 3
_CONS		0.053	0.04	0.045
		-0.13	-0.13	-0.13
FAMC_DUMMY	+	0.016		
		-0.02		
FAMC	+		0.332***	
			-0.07	
FAMC2	-		-0.516***	
			-0.11	
STATC_DUMMY	+	0.004		
		-0.02		
STATC	+		0.058	
			-0.05	
STATC2	-		-0.173	
			-0.22	
INSTITC_DUMMY	-	-0.015		
		-0.02		
INSTITC	-		0.001	
			-0.06	
INSTITC2	-		0.077	
			-0.3	
OWN	+			0.022
				-0.03
CEOD	+	-0.011	-0.011	-0.011
		-0.01	-0.01	-0.01
IND	-	0.007	0.007	0.007
		-0.01	-0.01	-0.01
ROYAL	-	0.061**	0.055*	0.047*
		-0.12	-0.12	-0.12
IND ROYAL	-	-0.163*	-0.178**	-0.158*
		-0.17	-0.17	-0.18
AUDITEX	-	-0.006	-0.008	-0.006
		-0.02	-0.02	-0.02
LN_BSIZE	-	-0.092***	-0.086***	-0.091***
		-0.03	-0.03	-0.03
LN GRWOTH	+	-0.021	-0.018	-0.019
		-0.02	-0.02	-0.02

CEOD GRWOTH	+	0.003	0.003	0.003
		-0.01	-0.01	-0.01
LN LEVERAGE	+	-0.035	-0.033	-0.035
		-0.03	-0.03	-0.03
LN SIZE	-	0.018*	0.016*	0.017*
		-0.01	-0.01	-0.01
BIG 4	-	0.001	0	0
		0	0	0
YEAR DUMMY		Yes	Yes	Yes
INDUSTRY DUMMY		Yes	Yes	Yes
COUNTRY DUMMY		Yes	Yes	Yes
L.LN AAA		0.009	0.017	0.015
		-0.06	-0.06	-0.06
N		679	684	684

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_AAA is the natural logarithm of the absolute value of abnormal accrual accounting based on Modified Jones model, 1995. *FAMC_DUMMY* is a dummy variable of family ownership. *STATC_DUMMY* is a dummy variable of state ownership. *INSTITC_DUMMY* is a dummy variable of institutional ownership. *FAMC*, *STATC*, and *INSTATIC* are the percentage of family ownership, state ownership and institutional ownership respectively. *FAMC2*, *STATC2*, *INSTATIC2* are the square term of family ownership, state ownership and institutional ownership respectively. *OWN* is the ownership concentration. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *IND* is the ratio of independent director to the total directors. *ROYAL* is the ratio of royal family member to the total directors. *IND_ROYAL* is interaction term between independent directors and royal family members. *AUDITEX* is the ratio of member with financial or accounting expertise to the total director. *LN_BSIZE* is natural logarithm of the board size. *LN_GROWTH* is the natural logarithm of the annual change in net sales divided by total assets. *CEOD_GROWTH* is interaction term between CEO duality and firm growth. *LN_LEVEVERGE* is the natural logarithm of total liabilities divided by total assets. *LN_SIZE* is the natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table B.6.B. (LN_AAA)-ROBUSTNESS TEST- GMM Regression of CG and EQ- Individual Country								
	Expected sign	UAE	UAE_AB	UAE_DU	BH	Qatar	Oman	⁹² SA
_CONS		0.703**	0.929***	0.237	0.95	0.379	-0.208	0.122
		-0.31	-0.34	-0.36	-0.87	-0.26	-0.16	-0.3
FAMC_DUMMY	+							0.018
								-0.02
STATC_DUMMY	+							0.005
								-0.02
INSTITC_DUMMY	-							-0.012
								-0.02
CEOD	+	-0.01*	-0.003*	-0.005*		-0.047*	0.015	
		-0.01	-0.01	0		-0.03	-0.01	
IND	-	-0.001	-0.006	0.074**	0.076	0.068***	0	0.017
		-0.02	-0.02	-0.04	-0.05	-0.02	-0.02	-0.01
ROYAL	-	0.132	0.365**	0.257	-0.052	0.008	0.114	0.266*
		-0.31	-0.18	-0.25	-0.09	-0.2	-0.38	-0.29
IND_ROYAL	-	-0.031	-0.602**	-0.659		0.133	-0.163	-0.592*
		-0.46	-0.24	-0.4		-0.26	-0.37	-0.33
AUDITEX	-	-0.012	-0.08	-0.075***	-0.067***	-0.009	-0.032	-0.001
		-0.03	-0.04	-0.03	-0.02	-0.02	-0.06*	-0.06
LN_BSIZE	-	0.147***	-0.155			0.156**	0.07	-0.066
		-0.03	-0.06			-0.07	-0.06	-0.05
LN_GROWTH	+	0.039	-0.014	0.003	0.006	-0.017*		-0.045
		-0.03	-0.04	-0.02	-0.11	-0.03		-0.03
CEOD_LNGROWTH	+	0.03	0.083*	0.001		0.177		
		-0.06	-0.05	-0.03		-0.14		
LN_LEVERAGE	+	-0.033	-0.111	-0.01	-0.26	-0.017	-0.154***	0.001
		-0.06	-0.07	-0.05	-0.19	-0.05	-0.06	-0.04
LN_SIZE	-	-0.022	-0.037**	-0.018	0.091	0.002	0.044***	0.006
		-0.02	-0.02	-0.03	-0.08	0.01	-0.01	-0.02
BIG4	-	0.012	0.011	0		-0.005	-0.009	-0.005
		-0.01	-0.01			-0.01	-0.01	0
L.LN_AAA		0.001	-0.2	-0.507**	-0.292*	-0.547**	0.029	0.006
		-0.11	-0.13	-0.21	-0.16	-0.24	-0.11	-0.08
YEAR DUMMY		Yes	Yes	Yes	Yes	Yes	Yes	Yes

⁹² The U-shaped relationship model, and concentration ownership model have been tested as well but the results are non-significant.

INDUSTRY DUMMY	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	110	73	37	28	50	210	284

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_AAA is the natural logarithm of the absolute value of abnormal accrual accounting based on Modified Jones model, *1995FAMC_DUMMY* is a dummy variable of family ownership. *STATC_DUMMY* is a dummy variable of state ownership. *INSTITC_DUMMY* is a dummy variable of institutional ownership. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *IND* is the ratio of independent director to the total directors. *ROYAL* is the ratio of royal family member to the total directors. *IND_ROYAL* is interaction term between independent directors and royal family members. *AUDITEX* is the ratio of member with financial or accounting expertise to the total director. *LN_BSIZE* is natural logarithm of the board size. *LN_GROWTH* is the natural logarithm of the annual change in net sales divided by total assets. *CEOD_GROWTH* is interaction term between CEO duality and firm growth. *LN_LEVEVERGE* is the natural logarithm of total liabilities divided by total assets. *LN_SIZE* is the natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table B.7. (LN_AWCA)-ROBUSTNESS TEST -GMM Regression of CG and EQ- GCC Countries										
		Period			Corruption score			Minority protection score		
		OLS	RE	XTABOND	OLS	RE	XTABOND	OLS	RE	XTABOND
_CONS		0.179***	0.175***	-0.268	0.133***	0.133***		0.1353***	0.1302***	
		-0.03	-0.04	-0.19	-0.04	-0.04		-0.03	-0.04	
FAMC_DUMMY	+	-0.006	-0.006	-0.004	-0.006	-0.007	-0.003	-0.007	-0.008	-0.002
		-0.01	-0.01	-0.02	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
STATC_DUMMY	+	-0.011*	-0.012	-0.025	-0.012*	-0.012	-0.025	-0.014**	-0.013	-0.024
		-0.01	-0.01	-0.02	-0.01	-0.01	-0.02	-0.01	-0.01	-0.02
INSTITC_DUMMY	-	-0.001	0	-0.003	-0.003	-0.001	-0.002	-0.004	-0.003	-0.002
		-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
CEOD	+	-0.001	-0.014	-0.056**	-0.0039	-0.0176	-0.053**	0.0078	0.002	-0.021**
		-0.01	-0.01	-0.02	-0.01	-0.01	-0.02	-0.01	-0.01	-0.01
IND	-	-0.011*	-0.007	-0.001	-0.011*	-0.008	-0.003	-0.011*	-0.007	-0.007
		-0.01	-0.01	-0.02	-0.01	-0.01	-0.02	-0.01	-0.01	-0.02
ROYAL	-	0.104*	0.076	0.519**	0.105*	0.083	0.533**	0.180***	0.148*	0.523**
		-0.06	-0.09	-0.25	-0.06	-0.09	-0.24	-0.06	-0.09	-0.24
IND_ROYAL	-	-0.158*	-0.135	-0.712***	-0.158*	-0.142	-0.72***	-0.228**	-0.201*	-0.723***
		-0.09	-0.11	-0.23	-0.09	-0.12	-0.23	-0.09	-0.12	-0.23
AUDITEX	-	0	-0.001	-0.009	-0.001	-0.002	-0.016	-0.0004	-0.0029	-0.014
		-0.01	-0.02	-0.03	-0.01	-0.02	-0.03	-0.01	-0.02	-0.03
LN_BSIZE	-	-0.013	-0.014	0.06	-0.013	-0.014	0.058	-0.018	-0.018	0.054
		-0.01	-0.01	-0.04	-0.01	-0.01	-0.04	-0.01	-0.01	-0.04
LN_GROWTH	+	0.059***	0.062***	0.063**	0.061***	0.065***	0.062**	0.063***	0.070***	0.069***
		-0.02	-0.02	-0.03	-0.02	-0.02	-0.03	-0.02	-0.02	-0.02
CEOD_GROWTH	+	0.068	0.122	0.179*	0.058	0.103	0.169			
		-0.07	-0.08	-0.11	-0.07	-0.08	-0.1			
LN_LEVERAGE	+	0.050***	0.044***	-0.069	0.050***	0.045***	-0.064	0.053***	0.046***	-0.062
		-0.01	-0.01	-0.06	-0.01	-0.01	-0.06	-0.01	-0.01	-0.06
BIG4	-	-0.002	-0.003	0.006	-0.002	-0.002	0.005	-0.0033	-0.0029	0.006
		0	0	-0.01	0	0	-0.01	0	0	-0.01
	-				-	-				
LN_SIZE			-0.007***		0.007***		0.011	-0.006***	0.011	
		0	0	-0.01	0	0	-0.01	0	0	-0.01
PERIOD	+	-0.003	-0.004				-			
		0	0							
CEOD_PERIOD	+	-0.008	-0.013*				0.000	0.004***		0.004**
		-0.01	-0.01				-0.06	0		0

CORRUPTION	+			0.001***	0.001**	-0.004		
				0	0	0		
PROTECTIONOFMINORITY	-						0.004***	0.004**
							0	0
L.LN_AWCA			0.02			0.000		
			-0.06			-0.06		
YEAR DUMMY	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
INDUSTRY DUMMY	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
COUNTRY DUMMY	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R2	0.146			0.148			0.143	
N	1209	1209	678	1209	1209	678	1209	1209

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_AWCA is the natural logarithm of the absolute value of abnormal working capital accrual based on Defond and Park, 2001 model scaled by beginning to *FAMC_DUMMY* is a dummy variable of family ownership. *STATC_DUMMY* is a dummy variable of state ownership. *INSTITC_DUMMY* is a dummy variable of institutional ownership. *CEOD* is a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *IND* is the independent director to the total directors. *ROYAL* is the ratio of royal family member to the total directors. *IND_ROYAL* is interaction term between independent and royal family members. *AUDITEX* is the ratio of member with financial or accounting expertise to the total director. *LN_BSIZE* is natural logarithm of the book value of equity. *LN_GROWTH* is the natural logarithm of the annual change in net sales divided by total assets. *CEOD_GROWTH* is interaction term between CEO duality and firm growth. *LN_LEVERAGE* is the natural logarithm of total liabilities divided by total assets. *LN_SIZE* is the natural logarithm of total assets. *BIG4* is a dummy variable the value of one if the company is audited by one of the BIG4 and zero otherwise. *PERIOD* is a dummy variable takes value of one if the year 2009 and 2010 otherwise. *CEOD_PERIOD* is interaction term between CEO duality and period. *CORRUPTION* is a score based on corruption index in World Bank. *PROTECTIONOFMINORITY* is a score based on protection of minority index in World Bank.

Table B.8. (IN_AWCA)-ROBUSTNESS TEST⁹³- GMM Regression of CG and EQ- GCC Countries				
	Expected sign	Model 1	Model 2	Model 3
_CONS		-0.315	-0.249	-0.224
		-0.2	-0.2	-0.2
FAMC_DUMMY	+	-0.005		
		-0.02		
FAMC	+		-0.16	
			-0.2	
FAMC2	-		0.459	
			-0.47	
STATC_DUMMY	+	-0.033*		
		-0.02		
STATC	+		-0.161	
			-0.13	
STATC2	-		0.671	
			-0.52	
INSTITC_DUMMY	-	-0.006		
		-0.01		
INSTITC	-		-0.051	
			-0.09	
INSTITC2	-		-0.129	
			-0.46	
OWN	-			-0.005
				-0.03
CEOD	+	-0.057**	-0.053**	-0.055**
		-0.02	-0.03	-0.02
IND	-	-0.004	-0.002	-0.003
		-0.02	-0.02	-0.02
ROYAL	-	0.414**	0.446**	0.445**
		-0.19	-0.2	-0.2
IND_ROYAL	-	-0.092***	-0.076**	-0.078***
		-0.03	-0.03	-0.03
AUDITEX	-	-0.006	-0.009	-0.012
		-0.03	-0.03	-0.03
LN_BSIZE	-	0.068	0.061	0.066

⁹³ In this robustness test- the study used a dummy of ind royal family members.

		-0.04	-0.04	-0.04
LN_GROWTH	+	0.056**	0.061**	0.062**
		-0.02	-0.03	-0.03
CEOD_GROWTH	+	0.171*	0.161	0.171
		-0.1	-0.11	-0.11
LN_LEVERAGE	+	-0.055	-0.067	-0.063
		-0.06	-0.06	-0.06
LN_SIZE	+	0.017	0.012	0.009
		-0.01	-0.01	-0.01
BIG4	-	0.006	0.005	0.005
		-0.01	-0.01	-0.01
L.LN_AWCA		-0.007	0.006	0.002
		-0.05	-0.06	-0.05
YEAR DUMMY		Yes	Yes	Yes
INDUSTRY DUMMY		Yes	Yes	Yes
COUNTRY DUMMY		Yes	Yes	Yes
N		678	683	683

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_AWCA is the natural logarithm of the absolute value of abnormal working capital accrual based on Defond and Park, 2001 model scaled by beginning total assets. *FAMC_DUMMY* is a dummy variable of family ownership. *STATC_DUMMY* is a dummy variable of state ownership. *INSTITC_DUMMY* is a dummy variable of institutional ownership. *FAMC*, *STATC*, and *INSTATC* are the percentage of family ownership, state ownership and institutional ownership respectively. *FAMC2*, *STATC2*, and *INSTATC2* are the square term of family ownership, state ownership and institutional ownership respectively. *OWN* is the ownership concentration. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *IND* is the ratio of independent director to the total directors. *ROYAL* is the ratio of royal family member to the total directors. *IND_ROYAL* is a dummy variable takes the value of one if the royal family members on the board are independent and zero otherwise. *AUDITEX* is the ratio of member with financial or accounting expertise to the total director. *LN_BSIZE* is the natural logarithm of the board size. *LN_GROWTH* is the natural logarithm of the annual change in net sales divided by total assets. *CEOD_GROWTH* is interaction term between CEO duality and firm growth. *LN_LEVEVERGE* is the natural logarithm of total liabilities divided by total assets. *LN_SIZE* is the natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Appendix C: CG, Firm Performance and Firm Value

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Figure 8 Normal Probability Plots for CG, Firm Performance and Firm Value⁹⁴

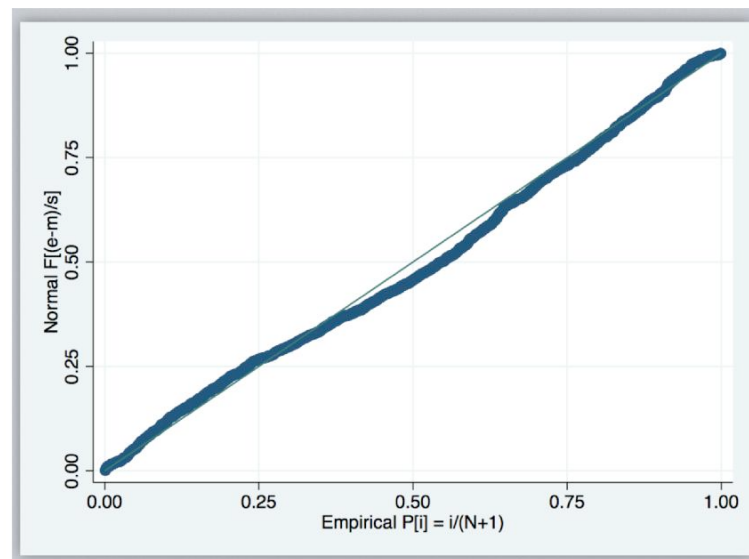
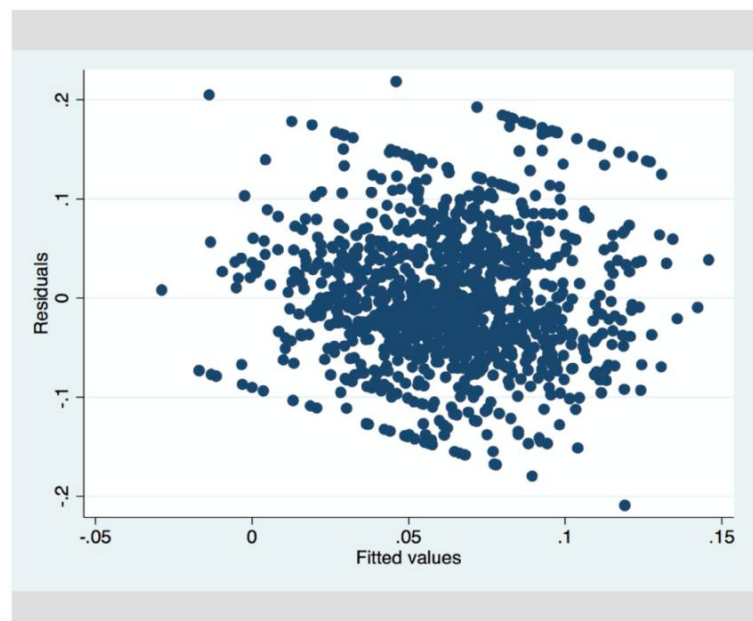


Figure 9 The Residual Versus Fitted Values Plots for CG,
Firm Performance and Firm Value



⁹⁴ These results before the transformation of the number of the variables.

Table C.1 Stationarity Test – CG, Firm Performance and Firm Value

variables	inverse chi-squared P		inverse normal z		inverse logit L		modified inv. Chi-squared pm	
	stat	p-value	stat	p-value	stat	p-value	stat	p-value
TOBIN'S Q	1389.10	0	-11.74	0	-26.48	0	29.84	0
FAMC	277.99	1	-7.16	0	-13.21	0	-6.31	1
STATC	34.92	1	-1.31	0.09	-1.53	0.06	-14.22	1
INSTITC	198.76	1	-0.54	0.29	-6.95	0	-8.89	1
BSIZE	78.38	1	-1.01	0.15	-0.95	0.17	-12.81	1
FEMALE	11.90	1	-0.18	0.42	-0.53	0.29	-14.97	1
RELATIVE	159.62	1	-2.76	0.00	-5.18	0	-10.16	1
IND	414.14	0.97	-3.02	0.00	-7.15	0	-1.88	0.97
CEOD	7.95	1	1.43	0.92	1.35	0.90	-15.10	1
BMEET	770.65	0	-10.24	0	-16.83	0	9.72	0
ROYAL	83.60	1	-1.05	0.14	-4.70	0	-12.64	1
GOV	75.12	1	-1.16	0.12	-5.82	0	-12.91	1
AUDITSIZE	81.00	1	-0.44	0.32	-0.58	0.27	-12.72	1
AUDITIND	290.21	1	-3.15	0.00	-6.63	0	-5.91	1
AUDITMEET	564.33	0.00	-5.08	0	-9.07	0	3.00	0.00
AUDITEX	207.66	1	-2.56	0.00	-5.65	0	-8.60	1
BIG4	23.57	1	1.88	0.97	1.79	0.96	-14.59	1
LEVERAGE	964.82	0	-5.47	0	-14.74	0	16.04	0
LN_SIZE	1027.30	0	-1.59	0.05	-11.50	0	18.07	0
GROWTH	1276.01	0	-12.76	0	-24.65	0	26.16	0

Table C.2.A. AIC and BIC- CG, Firm Performance and Firm Value – Model One								
Model 1	M1	M2	M3	M4	M5	M6	M7	M8
	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC
aic	3000.31	2995.28	2994.25	2984.91	2976.58	2970.34	2972.15	2905.8
bic	3010.31	3010.28	3019.25	3024.9	3021.57	3020.33	3027.15	3025.78

Table C.2.B. Step-Wise Test - CG, Firm Performance and Firm Value – Model One								
	M1	M2	M3	M4	M5	M6	M7	M8
INDEPENDENCE FACTOR	-0.047**	-0.046**	-0.040*	-0.040*	-0.032	-0.029	-0.032	-0.006
	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.03
FAMILY FACTOR	0.059***	0.063***	0.063***	0.064***	0.064***	0.064***	0.065***	0.024
	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02
BOARD FACTOR			-0.036	-0.037	-0.026	-0.028	-0.027	-0.063***
			-0.02	-0.02	-0.02	-0.02	-0.02	-0.02
GOVERNMENT FACTOR			0.045*	0.050**	0.045*	0.048**	0.049**	0.066***
			-0.02	-0.02	-0.02	-0.02	-0.02	-0.02
EFFECTIVENESS FACTOR				-0.092***	-0.089***	-0.090***	-0.092***	-0.041
				-0.03	-0.03	-0.03	-0.03	-0.03
EXPERTISE FACTOR				0.028	0.029	0.027	0.028	0.017
				-0.03	-0.03	-0.03	-0.03	-0.03
BOARD COMPOSITION FACTOR				-0.016	-0.026	-0.026	-0.024	-0.023
				-0.03	-0.03	-0.03	-0.03	-0.03
LN_GROWTH					-0.566***	-0.617***	-0.620***	-0.713***
					-0.18	-0.18	-0.18	-0.18
LN_LEVERAGE						0.800***	0.794***	0.499*
						-0.28	-0.28	-0.28
LN_SIZE							-0.015	-0.090**
							-0.04	-0.04
_CONS	1.543***	1.542***	1.542***	1.543***	1.740***	1.454***	1.491***	1.506***
	-0.03	-0.03	-0.03	-0.03	-0.07	-0.12	-0.15	-0.21
R2	0.004	0.011	0.015	0.029	0.038	0.045	0.045	0.122
N	1096	1096	1096	1096	1096	1096	1096	1096

Table C.2.C. AIC and BIC- CG, Firm Performance and Firm Value – Model Two								
Model 2	M1	M2	M3	M4	M5	M6	M7	M8
	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC
aic	3003.21	3001.87	3001.86	3000.86	2997.19	2987.27	2982.08	2906.05
bic	3013.21	3016.87	3021.86	3035.86	3037.18	3032.26	3032.07	3031.04

Table C.2.D. Step-Wise Test- CG, Firm Performance and Firm Value- Model Two									
	M1	M2	M3	M4	M5	M6	M7	M8	
	Coeff./SE	Coeff./SE	Coeff./SE	Coeff./SE	Coeff./SE	Coeff./SE	Coeff./SE	Coeff./SE	Coeff./SE
OWN ⁹⁵			-0.147	-0.207*	-0.191*	-0.124	-0.117	0.205*	
			-0.1	-0.11	-0.11	-0.11	-0.11	-0.12	
ROYAL	0.798	0.691	0.674	0.699	2.500***	2.338**	2.388***	1.452	
	-0.53	-0.54	-0.54	-0.54	-0.93	-0.93	-0.92	-0.91	
IND		-0.195*	-0.184*	-0.237**	-0.245**	-0.217**	-0.204*	-0.047	
		-0.11	-0.11	-0.11	-0.11	-0.11	-0.11	-0.13	
LN_BSIZE				-0.591**	-0.559**	-0.562**	-0.568**	-0.513**	
				-0.23	-0.23	-0.23	-0.23	-0.23	
CEOD				-0.047	-0.040	-0.068	-0.062	-0.133	
				-0.11	-0.11	-0.11	-0.11	-0.11	
BIG4				0.053	0.117*	0.147**	0.134**	0.152**	
				-0.06	-0.07	-0.07	-0.07	-0.06	
BIG4_ROYAL					-2.708**	-2.695**	-2.682**	-2.442**	
					-1.14	-1.13	-1.13	-1.12	
LN_LEVERAGE						-0.619***	-0.665***	-0.848***	
						-0.18	-0.18	-0.18	
LN_GROWTH							0.753***	0.389	
							-0.28	-0.28	
LN_SIZE								-0.099**	
								-0.04	
CONS	1.520***	1.639***	1.707***	3.244***	3.124***	3.285***	3.024***	2.899***	
	-0.03	-0.07	-0.09	-0.62	-0.62	-0.62	-0.63	-0.66	
R2	0.002	0.005	0.006	0.013	0.018	0.028	0.035	0.124	
N	1096	1096	1096	1096	1096	1096	1096	1096	

⁹⁵ The study checked all the ownership variables such as the dummy of ownership and the result is still the same.

Table C.3. OLS and Panel Data Regression – CG, Firm Performance and Firm Value- GCC countries- Model One

	Expected sign	Pool OLS Rgression			Panel Data Regression with Random Effect		
		LN_TOBIN'SQ	LN_ROA	LN_ROE	LN_TOBIN'SQ	LN_ROA	LN_ROE
_CONS		0.266**	0.104***	0.174***	0.857***	0.05	0.111*
		-0.12	-0.01	-0.02	-0.31	-0.04	-0.06
INDEPENDENCE FACTOR	+	-0.016	-0.006***	-0.008***	-0.021	-0.001	-0.002
		-0.02	0	0	-0.02	0	0
FAMILY FACTOR	+	0.018	0.002*	0.006**	0.001	0.004**	0.007**
		-0.01	0	0	-0.02	0	0
BOARD FACTOR	+	-0.038***	-0.002*	-0.003	-0.015	0	0
		-0.01	0	0	-0.02	0	0
GOVERNMENT FACTOR	-	0.025*	0.002	0.005**	0.028*	0.002	0.004
		-0.01	0	0	-0.02	0	0
EFFECTIVENESS FACTOR	+	-0.025	0	-0.002	-0.016	0.001	0.001
		-0.02	0	0	-0.02	0	0
EXPERTISE FACTOR	+	0.010	0.007***	0.013***	0.007	0.005**	0.009**
		-0.02	0	0	-0.02	0	0
BOARD COMPOSITION FACTOR	-	-0.010	-0.000	-0.001	-0.003	0	0.001
		-0.01	0	0	-0.01	0	0
LN_GROWTH	+	0.332**	0.100***	0.121***	0.116	0.027**	0.042*
		-0.16	-0.02	-0.03	-0.12	-0.01	-0.03
LN_LEVERAGE	-	-0.436***	-0.057***	0.037*	-0.139	-0.143***	-0.009
		-0.11	-0.01	-0.02	-0.17	-0.02	-0.03
LN_SIZE	+	-0.061***	0.001	0.000	-0.058**	0.009***	0.008*
		-0.02	0	-0.01	-0.02	0	0
R2		0.119	0.146	0.126			
N		1096	1096	1096	1096	1096	

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_TOBIN'S Q is natural logarithm of market value measure. *LN_ROA* is natural logarithm of return on assets. *LN_ROE* is natural logarithm of return on equity. *INDEPENDENCE FACTOR* includes independent of the board of directors and independent of the audit committee. *FAMILY FACTOR* includes family ownership and relatives. *BOARD FACTOR* includes of board size, board meeting, audit committee size and audit committee meeting. *GOVERNMENT FACTOR* includes government ownership and government officials on the board. *EFFECTIVENESS FACTOR* includes audit committee expertise and institutional ownership. *EXPERTISE FACTOR* includes royal family members on the board and big 4 audit committee. *BOARD COMPOSITION FACTOR* includes CEO duality and female directors on the board. *LN_GROWTH* is the natural logarithm of change in net sales divided by total assets. *LN_LEVEVERGE* is the natural logarithm of total liabilities divided by total assets. *LN_SIZE* is the natural logarithm of the total assets.

Table C.4.A. OLS Regression – CG, Firm Performance and Firm Value- GCC countries- Model Two

	Expected sign	A			B			C		
		LN TOBIN'SQ	LN ROA	LN ROE	LN TOBIN'SQ	LN ROA	LN ROE	LN TOBIN'SQ	LN ROA	LN ROE
_CONS		1.184***	-0.035	-0.064	0.956**	-0.033	-0.089	0.986**	-0.028	-0.05
		-0.41	-0.04	-0.06	-0.41	-0.04	-0.06	-0.41	-0.04	-0.06
FAMC_DUMMY	+	-0.121	0.029***	0.032***						
		-0.08	-0.01	-0.01						
FAMC	+				-0.207	-0.013	0.024			
					-0.22	-0.03	-0.04			
FAMC2	+				0.560*	0.100***	0.100*			
					-0.33	-0.04	-0.06			
STATC_DUMMY	-	-0.080	0.026***	0.021*						
		-0.08	-0.01	-0.01						
STATC	-				-0.007	-0.056**	0.021*			
					-0.22	-0.03	-0.05			
STATC2	-				0.321	-0.111**	0.093*			
					-0.5	-0.05	-0.1			
INSTITC_DUMMY	+	-0.086	0.018**	0.01						
		-0.08	-0.01	-0.01						
INSTITC	+				-0.019	-0.009	-0.024			
					-0.18	-0.02	-0.04			
INSTITC2	+				-0.124	0.115*	0.057			
					-0.49	-0.06	-0.1			
OWN	+							0.066	0.026***	0.040***
								-0.08	-0.01	-0.01
CEOD	-	-0.027	-0.024***	-0.030***	-0.033	-0.028***	-0.035***	-0.025	-0.026***	-0.031***
		-0.06	-0.01	-0.01	-0.05	-0.01	-0.01	-0.06	-0.01	-0.01
IND	+	-0.135	-0.018**	-0.022*	-0.1011	-0.013*	-0.010*	-0.114	-0.013*	-0.013*
		-0.07	-0.01	-0.01	-0.07	-0.01	-0.01	-0.07	-0.01	-0.01
ROYAL	+	0.545	0.118**	0.222***	0.492	0.125**	0.227***	0.493	0.125**	0.230***
		-0.63	-0.06	-0.08	-0.63	-0.05	-0.08	-0.63	-0.05	-0.08
LN_BSIZE	+	-0.281*	0.051***	0.091***	-0.235	0.057***	0.104***	-0.250*	0.052***	0.087***
		-0.15	-0.01	-0.02	-0.15	-0.01	-0.02	-0.15	-0.01	-0.02
ROYAL_BIG4	+	-0.100	-0.007	-0.014	-0.099	-0.012	-0.019	-0.097	-0.010	-0.018
		-0.09	-0.01	-0.01	-0.09	-0.01	-0.01	-0.09	-0.01	-0.01
LN_LEVERAGE	-	-0.469***	-0.066***	0.025	-0.500***	-0.072***	0.020	-0.498***	-0.068***	0.022
		-0.11	-0.01	-0.02	-0.11	-0.01	-0.02	-0.11	-0.01	-0.02

LN_GROWTH	+	0.296*	0.094***	0.110***	0.274*	0.095***	0.107***	0.276*	0.094***	0.111***
		-0.16	-0.02	-0.03	-0.16	-0.02	-0.03	-0.16	-0.02	-0.03
LN_SIZE	-	-0.067***	0.000	0.000	-0.068***	0.000	0.001	-0.067***	0.000	0.000
		-0.02	0	-0.01	-0.02	0	-0.01	-0.02	0	-0.01
BIG4	+	0.063*	0.007*	0.0152**	0.068*	0.010**	0.018***	0.061*	0.007*	0.014**
		-0.04	0	-0.01	-0.04	0	-0.01	-0.04	0	-0.01
YEAR DUMMY		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
INDUSTRY DUMMY		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
COUNTRY DUMMY		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R2		0.118	0.165	0.136	0.119	0.182	0.158	0.116	0.162	0.134
N		1096	1096	1096	1095	1095	1095	1096	1096	1096

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_TOBIN'S Q is natural logarithm of market value measure. *LN_ROA* is natural logarithm of return on assets. *LN_ROE* is natural logarithm of return on equity. *FAMC_DUMMY* is a dummy variable of family ownership. *STATC_DUMMY* is a dummy variable of state ownership. *INSTITC_DUMMY* is a dummy variable of institutional ownership. *FAMC*, *STATC*, and *INSTATIC* are the percentage of family ownership, state ownership and institutional ownership respectively. *FAMC2*, *STATC2*, *INSTATIC2* are the square term of family ownership, state ownership and institutional ownership respectively. *OWN* is the ownership concentration. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *IND* is the ratio of independent director to the total directors. *ROYAL* is the ratio of royal family member to the total directors. *LN_BSIZE* is natural logarithm of the board size. *ROYAL_BIG4* is interaction term between royal family members on the board and big 4 audit firm. *LN_LEVERAGE* is the natural logarithm of total liabilities divided by total assets. *LN_GROWTH* is the natural logarithm of the annual change in net sales divided by average total assets. *LN_SIZE* is the natural logarithm of f total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table C.3.B. Panel Data Regression – CG, Firm Performance and Firm Value- GCC countries- Model Two

	Expected sign	A			B			C		
		LN TOBIN'SQ	LN ROA	LN ROE	LN TOBIN'SQ	LN ROA	LN ROE	LN TOBIN'SQ	LN ROA	LN ROE
CONS		1.218**	0.015	-0.031	1.080*	-0.048	-0.16	0.957*	0.024	-0.015
		-0.51	-0.06	-0.09	-0.65	-0.07	-0.1	-0.5	-0.06	-0.09
FAMC_DUMMY	+	-0.135	0.011	0.014						
		-0.09	-0.01	-0.02						
FAMC	+				-0.175	-0.005	0.045			
					-0.36	-0.04	-0.06			
FAMC2	+				0.47	0.087	0.069			
					-0.53	-0.05	-0.08			
STATC_DUMMY	-	-0.047	0.006	0.001						
		-0.11	-0.01	-0.02						
STATC	-				0.218	-0.028	0.004			
					-0.24	-0.03	-0.06			
STATC2	-				0.352	-0.171**	-0.209			
					-0.55	-0.08	-0.15			
INSTITC_DUMMY	+	-0.07	0.004	0.002						
		-0.1	-0.01	-0.02						
INSTITC	+				0.215	0.008	0.045			
					-0.23	-0.03	-0.04			
INSTITC2	+				-0.551	0.184*	0.18			
					-0.57	-0.09	-0.15			
OWN	+							0.156	0.016	0.019
								-0.1	-0.01	-0.02
CEOD	-	-0.051	-0.019***	-0.027***	-0.082	-0.018**	-0.019*	-0.05	-0.020***	-0.027***
		-0.06	-0.01	-0.01	-0.07	-0.01	-0.01	-0.06	-0.01	-0.01
IND	+	-0.087	-0.002	0.001	-0.128	-0.014	-0.016	-0.066	-0.001	0.002
		-0.08	-0.01	-0.01	-0.11	-0.01	-0.01	-0.08	-0.01	-0.01
ROYAL	+	0.194	0.1	0.184*	0.403	0.059	0.135	0.149	0.097	0.181*
		-0.73	-0.07	-0.1	-0.79	-0.08	-0.1	-0.73	-0.06	-0.1
LN_BSIZE	+	-0.106	0.013*	0.057*	-0.008	0.034*	0.096**	-0.049	0.011*	0.054
		-0.17	-0.02	-0.03	-0.22	-0.03	-0.04	-0.17	-0.02	-0.03
ROYAL_BIG4	+	-0.036	-0.001	0	-0.065	-0.003	-0.01	-0.051	-0.001	0
		-0.1	-0.01	-0.01	-0.11	-0.01	-0.01	-0.1	-0.01	-0.01
LN_LEVERAGE	-	-0.155	-0.142***	-0.005	-0.337	-0.151***	-0.015	-0.183	-0.142***	-0.004

		-0.17	-0.02	-0.04	-0.21	-0.02	-0.04	-0.17	-0.02	-0.03
LN_GROWTH	+	0.087	0.026*	0.04	0.312*	0.046***	0.062**	0.087	0.027*	0.04
		-0.11	-0.01	-0.03	-0.19	-0.02	-0.03	-0.12	-0.01	-0.03
LN_SIZE	-	-0.055**	0.008***	0.007	-0.067***	0.009***	0.009**	-0.058**	0.008***	0.006
		-0.02	0	0	-0.03	0	0	-0.02	0	0
BIG4	+	0.031	0.005	0.004	0.033	0.009*	0.01	0.037	0.005	0.003
		-0.04	0	-0.01	-0.06	0	-0.01	-0.04	0	-0.01
YEAR DUMMY		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
INDUSTRY DUMMY		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
COUNTRY DUMMY		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N		1090	1090	1090	746	746	746	1096	1096	1096

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_TOBIN'S Q is natural logarithm of market value measure. *LN_ROA* is natural logarithm of return on assets. *LN_ROE* is natural logarithm of return on equity. *FAMC_DUMMY* is a dummy variable of family ownership. *STATC_DUMMY* is a dummy variable of state ownership. *INSTITC_DUMMY* is a dummy variable of institutional ownership. *FAMC*, *STATC*, and *INSTATIC* are the percentage of family ownership, state ownership and institutional ownership respectively. *FAMC2*, *STATC2*, *INSTATIC2* are the square term of family ownership, state ownership and institutional ownership respectively. *OWN* is the ownership concentration. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *IND* is the ratio of independent director to the total directors. *ROYAL* is the ratio of royal family member to the total directors. *LN_BSIZE* is natural logarithm of the board size. *ROYAL_BIG4* is interaction term between royal family members on the board and big 4 audit firm. *LN_LEVERAGE* is the natural logarithm of total liabilities divided by total assets. *LN_GROWTH* is the natural logarithm of the annual change in net sales divided by average total assets. *LN_SIZE* is the natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table C.3.C. Model specification two⁹⁶ for the individual country: CG firm performance and firm value:

Model of SA:

$$Y_{it} = \alpha + \beta_1 FMAC\ DUMMY_{it} + \beta_2 STATC\ DUMMY_{it} + \beta_3 INSTATC\ DUMMY_{it} + \beta_4 IND_{it} \\ + \beta_5 ROYAL_{it} + \beta_6 LN\ BSIZE_{it} + \beta_7 ROYAL\ BIG\ 4_{it} + \beta_8 LN\ LEVERAGE_{it} \\ + \beta_9 LN\ GROWTH_{it} + \beta_{10} LN\ SIZE_{it} + \beta_{11} BIG\ 4_{it} + INDUSTRY\ DUMMY \\ + YEAR\ DUMMY + \varepsilon_{it}$$

Model of Oman:

$$Y_{it} = \alpha + \beta_1 CEOD_{it} + \beta_2 IND_{it} + \beta_3 ROYAL_{it} + \beta_4 LN\ BSIZE_{it} + \beta_5 ROYAL\ BIG\ 4_{it} \\ + \beta_6 LN\ LEVERAGE_{it} + \beta_7 LN\ GROWTH_{it} + \beta_8 LN\ SIZE_{it} + \beta_9 BIG\ 4_{it} \\ + INDUSTRY\ DUMMY + YEAR\ DUMMY + \varepsilon_{it}$$

Model of Qatar:

$$Y_{it} = \alpha + \beta_1 IND_{it} + \beta_2 ROYAL_{it} + \beta_3 LN\ BSIZE_{it} + \beta_4 ROYAL\ BIG\ 4_{it} \\ + \beta_5 LN\ LEVERAGE_{it} + \beta_6 LN\ GROWTH_{it} + \beta_7 LN\ SIZE_{it} + \beta_8 BIG\ 4_{it} \\ + INDUSTRY\ DUMMY + YEAR\ DUMMY + \varepsilon_{it}$$

Model of Bahrain:

$$Y_{it} = \alpha + \beta_1 CEOD_{it} + \beta_2 IND_{it} + \beta_3 ROYAL_{it} + \beta_4 LN\ BSIZE_{it} + \beta_5 ROYAL\ BIG\ 4_{it} \\ + \beta_6 LN\ LEVERAGE_{it} + \beta_7 LN\ GROWTH_{it} + \beta_8 LN\ SIZE_{it} + \beta_9 BIG\ 4_{it} \\ + INDUSTRY\ DUMMY + YEAR\ DUMMY + \varepsilon_{it}$$

Model of UAE :

$$Y_{it} = \alpha + \beta_1 CEOD_{it} + \beta_2 IND_{it} + \beta_3 ROYAL_{it} + \beta_4 LN\ BSIZE_{it} + \beta_5 ROYAL\ BIG\ 4_{it} \\ + \beta_6 LN\ LEVERAGE_{it} + \beta_7 LN\ GROWTH_{it} + \beta_8 LN\ SIZE_{it} + \beta_9 BIG\ 4_{it} \\ + INDUSTRY\ DUMMY + YEAR\ DUMMY + \varepsilon_{it}$$

Model of Abu Dhabi:

$$Y_{it} = \alpha + \beta_1 CEOD_{it} + \beta_2 IND_{it} + \beta_3 ROYAL_{it} + \beta_4 LN\ BSIZE_{it} + \beta_5 ROYAL\ BIG\ 4_{it} \\ + \beta_6 LN\ LEVERAGE_{it} + \beta_7 LN\ GROWTH_{it} + \beta_8 LN\ SIZE_{it} + \beta_9 BIG\ 4_{it} \\ + INDUSTRY\ DUMMY + YEAR\ DUMMY + \varepsilon_{it}$$

Model of Dubai:

$$Y_{it} = \alpha + \beta_1 CEOD_{it} + \beta_2 IND_{it} + \beta_3 ROYAL_{it} + \beta_4 LN\ BSIZE_{it} + \beta_5 ROYAL\ BIG\ 4_{it} \\ + \beta_6 LN\ LEVERAGE_{it} + \beta_7 LN\ GROWTH_{it} + \beta_8 LN\ SIZE_{it} + \beta_9 BIG\ 4_{it} \\ + INDUSTRY\ DUMMY + YEAR\ DUMMY + \varepsilon_{it}$$

⁹⁶ The model one used as it for all individual country.

Table C.4.A. ROBUSTNESS TEST- Descriptive statistics- CG and Firm Performance and Firm Value- GCC Countries					
Variable	Mean	Median	Std. Dev.	Min	Max
ADJ TOBIN'S Q	0.133	0	0.749	-1.08	2.90
ADJ ROA	0.005	0	0.074	-0.180	0.213
FAMC	0.141	0.065	0.190	0	0.991
STATC	0.138	0	0.213	0	0.893
INSTITC	0.214	0.115	0.256	0	1
BSIZE	7.882	8	1.693	4	18
FEMALE	0.002	0	0.023	0	0.571
RELATIVE	0.116	0	0.188	0	1
IND	0.595	0.571	0.270	0	1
CEOD	0.074	0	0.263	0	1
BMEET	5.634	5	2.025	1	19
ROYAL	0.027	0	0.053	0	0.2
GOV	0.013	0	0.0412	0	0.285
AUDITSIZE	3.300	3	0.804	0	6
AUDITIND	0.628	0.66	0.342	0	1
AUDITMEET	4.659	4	2.213	0	21
AUDITEX	0.280	0.333	0.098	0	0.5
BIG4	0.610	1	0.487	0	1
LEVERAGE	0.395	0.365	0.241	0.041	0.955
LN_SIZE	12.252	12.609	1.901	10.01	15.893
GROWTH	0.029	0.018	0.145	-0.441	0.458

N=1,096

Notes: ADJ TOBIN'S Q is Adjusted market measure. ADJ ROA, is Adjusted return on assets. FAMC is the percentage of family ownership. STATC is the percentage of state ownership. INSTITC is the percentage of institutional ownership. BSIZE is the board size. FEMALE is the ratio of female to the total board directors. RELATIVE is the ratio of relative to the total board of directors. IND is the ratio of independent director to the total board of directors. CEOD a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. BMEET is the number board of meetings per year. ROYAL is the ratio of royal family member to the total board of directors. GOV is the ratio of government official to the total directors. AUDITSIZE is the number of director on the audit committee. AUDITIND is the ratio of independent director in audit committee. AUDITMEET is the number of audit committee meeting per year. AUDITEX is the ratio of member with financial or accounting expertise to the total director. BIG4 is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise. LEVEVERGE is total liabilities divided by total assets. LN SIZE is the natural logarithm of the total assets. GROWTH is change in net sales divided by total assets.

Table C.4.B. ROBUSTNESS TEST - Correlation Matrix-CG and Firm Performance and Firm Value- GCC countries

	ADJ TOBIN'S Q	ADJ ROA	FAMC	STATC	INSTITC	BSIZE	FEMALE	RELATIVE	IND
ADJ TOBIN'S Q	1								
ADJ ROA	0.403*	1							
FAMC	-0.052	-0.027	1						
STATC	0.056	0.090*	-0.287*	1					
INSTITC	-0.025	-0.058	-0.213*	-0.249*	1				
BSIZE	-0.044	0.080*	-0.183*	0.067*	-0.127*	1			
FEMALE	0.033	0.068*	0.02	0.068*	-0.044	0.010	1		
RELATIVE	-0.024	0.015	0.378*	-0.229*	-0.104*	-0.096*	-0.016	1	
IND	-0.069*	-0.096*	-0.024	-0.087*	0.168*	-0.198*	-0.060*	-0.078*	1
CEOD	-0.025	-0.076*	0.051	-0.063*	-0.087*	0.034	0.068*	0.076*	-0.068*
BMEET	0.006	-0.080*	-0.067*	0.211*	-0.057	0.002	-0.040	-0.007	0.083*
ROYAL	-0.025	0.072*	0.033	-0.003	-0.055	0.076*	-0.020	0.111*	-0.108*
GOV	0.052	0.114*	-0.139*	0.267*	-0.008	0.006	0.024	-0.126*	0.0196
AUDITSIZE	-0.011	0.021	-0.00	0.081*	0.029	0.158*	0.076*	-0.044	0.130*
AUDITIND	-0.065*	-0.100*	0.073*	-0.123*	0.190*	-0.134*	-0.064*	0.007	0.681*
AUDITMEET	-0.062*	-0.022	-0.047	0.174*	-0.078*	0.090*	-0.075*	-0.021	0.096*
AUDITEX	0.014	-0.014	-0.022	-0.131*	-0.053	-0.056	-0.112*	-0.021	0.059*
BIG4	-0.009	0.137*	-0.093*	0.132*	0.033	0.103*	-0.000	-0.071*	-0.046
LEVERAGE	-0.155*	-0.215*	0.095*	-0.020	0.176*	-0.050	-0.038	0.013	0.096*
LN_SIZE	0.021	0.081*	-0.033	0.089*	-0.404*	0.2105*	0.038	0.086*	-0.284*
GROWTH	0.101*	0.200*	0.050	-0.060*	0.018	0.005	-0.008	0.022	-0.031

CONTINUED	CEOD	BMEET	ROYAL	GOV	AUDITS~E	AUDITIND	AUDITMEET	AUDITEX	BIG4	LEVERAGE	SIZE	GROWTH
ADJ TOBIN'S												
Q												
ADJ ROA												
FAMC												
STATC												
INSTITC												
BSIZE												
FEMALE												
RELATIVE												
IND												
CEOD	1											
BMEET	-0.006	1										
ROYAL	0.066*	-0.033	1									
GOV	-0.081*	0.088*	-0.004	1								
AUDITSIZE	-0.019	0.157*	-0.063*	0.054	1							
AUDITIND	-0.059*	0.062*	-0.035	-0.002	0.102*	1						
AUDITMEET	-0.020	0.311*	-0.077*	0.047	0.253*	0.083*	1					
AUDITEX	-0.025	-0.083*	-0.046	-0.118*	-0.163*	0.146*	0.187*	1				
BIG4	-0.035	-0.007	0.103*	0.092*	0.019	-0.043	0.00	0.107*	1			
LEVERAGE	-0.101*	0.113*	-0.084*	-0.042	0.111*	0.090*	0.154*	-0.007	0.137*	1		
LN SIZE	0.086*	0.021	0.146*	0.085*	-0.024	0.2501*	0.044	0.046	0.027	-0.098*	1	
GROWTH	-0.038	-0.028	-0.0405	-0.006	-0.006	-0.055	0.036	-0.005	0.090*	0.117*	-0.037	1

Notes: ADJ TOBIN'S Q is Adjusted market measure. ADJ ROA, is Adjusted return on assets. FAMC is the percentage of family ownership. STATC is the percentage of state ownership. INSTITC is the percentage of institutional ownership. BSIZE is the board size. FEMALE is the ratio of female to the total board directors. RELATIVE is the ratio of relative to the total board of directors. IND is the ratio of independent director to the total board of directors. CEOD a dummy variable that takes the value of one if the CEO also serves as Chairman of the board and Zero otherwise. BMEET is the number board of meetings per year. ROYAL is the ratio of royal family member to the total board of directors. GOV is the ratio of government official to the total directors. AUDITSIZE is the number of directors on the audit committee. AUDITIND is the ratio of independent director in audit committee. AUDITMEET is the number of audit committee meeting per year. AUDITEX is the ratio of member with financial or accounting expertise to the total director. BIG4 is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise. LEVEVERGE is calculated as total liabilities divided by total assets. LN_SIZE is the natural logarithm of the total assets. GROWTH is change in net sales divided by total assets.

Table C.4.C. ROBUSTNESS TEST - GMM Regression – CG, Firm Performance and Firm Value- GCC Countries- Model One

	Expected sign	ADJ TOBIN' S Q	ADJ ROA
_CONS		3.495***	-0.649**
		-1.33	-0.26
INDEPENDENCE FACTOR	+	-0.006	0.003
		-0.02	0
FAMILY FACTOR	+	-0.042	-0.004
		-0.04	-0.01
BOARD FACTOR	+	0.005	0.001
		-0.01	0
GOVERNMENT FACTOR	-	-0.031	0
		-0.03	0
EFFECTIVENESS FACTOR	+	-0.049**	-0.010**
		-0.02	0
EXPERTISE FACTOR	+	0.011	0.006*
		-0.02	-0.01
BOARD COMPOSITION FACTOR	-	-0.028	0.002
		-0.02	0
LN_GROWTH	+	0.02	0.035
		-0.1	-0.02
LN_LEVERAGE	-	0.054	-0.162***
		-0.27	-0.06
LN_SIZE	+	-0.202**	0.063***
		-0.1	-0.02
L.ADJ TOBIN' S Q		-0.159*	
		-0.08	
L.ADJ ROA			0.15
			-0.12
N		408	408

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

ADJ TOBIN'S Q is Adjusted market measure. ADJ ROA is Adjusted return on assets. INDEPENDENCE FACTOR includes independent of the board of directors and independent of the audit committee. FAMILY FACTOR includes family ownership and relatives. BOARD FACTOR includes of board size, board meeting, audit committee size and audit committee meeting. GOVERNMENT FACTOR includes government ownership and government officials on the board. EFFECTIVENESS FACTOR includes audit committee expertise and institutional ownership. EXPERTISE FACTOR includes royal family members on the board and big 4 audit committee. BOARD COMPOSITION FACTOR includes CEO duality and female directors on the board. LN_GROWTH is the natural logarithm of change in net sales divided by total assets. LN_LEVERAGE is the natural logarithm of total liabilities divided by total assets. LN_SIZE is the natural logarithm of the total assets

Table C.4.D. ROBUSTNESS TEST - GMM regression – CG, Firm Performance and Firm Value- GCC Countries- Model Two

		Model1		Model 2		Model3	
	Expected sign	ADJ TOBIN'S Q	ADJ ROA	ADJ TOBIN'S Q	ADJ ROA	ADJ TOBIN'S Q	ADJ ROA
_CONS		4.505***	-0.647**	4.165***	-0.606*	3.713**	-0.675**
		-1.51	-0.31	-1.53	-0.32	-1.52	-0.34
FAMC_DUMMY	+	0.352	0.030***				
		-0.12	-0.01				
FAMC	+			-0.799	0.126		
				-0.75	-0.06		
FAMC2	+			1.313	-0.179***		
				-1.07	-0.07		
STATC_DUMMY	-	0.392	0.029				
		-0.13	-0.01				
STATC	-			0.674***	0.017		
				-0.18	-0.03		
STATC2	-			-0.407*	0.202**		
				-1.06	-0.09		
INSTITC_DUMMY	+	0.284	0.013				
		-0.13	-0.01				
INSTITC	+			0.26	-0.160***		
				-0.62	-0.04		
INSTITC2	+			2.71	0.475		
				-2.9	-0.21		
OWN	+					-0.014	0.002
						-0.02	-0.01
CEOD	-	-0.04	0.003	-0.055	0.004	-0.003	0.005
		-0.08	-0.01	-0.08	-0.01	-0.08	-0.01
IND	+	-0.055	0.008	-0.063	0.009	-0.043	0.016
		-0.09	-0.02	-0.1	-0.02	-0.08	-0.02
ROYAL	+	-0.378	0.247	-0.662	0.256	-0.568	0.325
		-0.87	-0.23	-0.81	-0.21	-1	-0.26
LN_BSIZE	+	-0.255	0.036	-0.282	0.031	-0.347	0.012
		-0.22	-0.05	-0.25	-0.05	-0.21	-0.05
ROYAL_BIG4	+	0.063	-0.003	0.088	-0.008	0.076	-0.004
		-0.08	-0.01	-0.08	-0.01	-0.08	-0.01
LN_LEVERAGE	-	0.02	-0.159***	-0.012	-0.144**	-0.137	-0.142**
		-0.27	-0.06	-0.27	-0.06	-0.27	-0.07

LN_GROWTH	+	0.036	0.032	0.053	0.021	-0.017	0.061***
		-0.1	-0.02	-0.1	-0.03	-0.1	-0.02
LN_SIZE	-	-0.200**	0.067***	-0.192**	0.064***	-0.137	0.062***
		-0.1	-0.02	-0.09	-0.02	-0.1	-0.02
BIG4	+	-0.031	0.012	-0.033	0.011	-0.006	0.013
		-0.05	-0.01	-0.05	-0.01	-0.06	-0.01
L.ADJ TOBIN'S Q		-0.168**		-0.11		-0.221**	
		-0.09		-0.1		-0.1	
L.ADJ ROA			0.178		0.134		0.359**
			-0.13		-0.13		-0.14
YEAR DUMMY		Yes	Yes	Yes	Yes	Yes	Yes
INDUSTRY DUMMY		Yes	Yes	Yes	Yes	Yes	Yes
COUNTRY DUMMY		Yes	Yes	Yes	Yes	Yes	Yes
N		403	403	408	408	343	343

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

ADJ TOBIN'S Q is Adjusted market measure. ADJ ROA is Adjusted return on assets. FAMC_DUMMY is a dummy variable of family ownership. STATC_DUMMY is a dummy variable of state ownership. INSTITC_DUMMY is a dummy variable of institutional ownership. FAMC, STATC, and INSTATIC are the percentage of family ownership, state ownership and institutional ownership respectively. FAMC2, STATC2, INSTATIC2 are the square term of family ownership, state ownership and institutional ownership respectively. OWN is the ownership concentration. CEOD a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. IND is the ratio of independent director to the total directors. ROYAL is the ratio of royal family member to the total directors. LN_BSIZE is natural logarithm of the board size. ROYAL_BIG4 is interaction term between royal family members on the board and big 4-audit firm. LN_LEVERAGE is natural logarithm of total liabilities divided by total assets. LN_GROWTH is natural logarithm of the annual change in net sales divided by average total assets. LN_SIZE is natural logarithm of total assets. BIG4 is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table C.5.A. GMM Regression – CG, and Firm Value (ADJ TOBIN'S Q)- Individual Country - Model One

	Expected sign	UAE	UAE AB	UAE DU	BH	Qatar	Oman	SA
_CONS		2.454***	2.319***	0.269	0.695**	1.927*	0.361	3.332***
		-0.81	-0.83	-1.06	-0.3	-1.16	-0.23	-1.17
INDEPENDENCE FACTOR	+	0.017	0.015	0.027	-0.140*	-0.030	-0.002	-0.028
		-0.02	-0.02	-0.03	-0.08	-0.03	-0.02	-0.03
FAMILY FACTOR	+	0.012	0.009	-0.062	0.091	0.065	-0.050**	-0.04
		-0.04	-0.04	-0.07	-0.11	-0.07	-0.02	-0.05
BOARD FACTOR	+	-0.031	-0.020	-0.056**	0.110**	0.043	0.079**	0.022
		-0.02	-0.02	-0.03	-0.05	-0.03	-0.04	-0.03
GOVERNMENT FACTOR	-	-0.059	-0.045	-0.129	0.081	0.069	0.009	-0.020
		-0.04	-0.04	-0.13	-0.06	-0.05	-0.04	-0.05
EFFECTIVENESS FACTOR	+	0.056**	0.050**	0.090***	-0.101	-0.005	0.068**	0.067**
		-0.02	-0.02	-0.03	-0.08	-0.04	-0.03	-0.03
EXPERTISE FACTOR	+	0.005	0.008	0.002	0.040	0.052	-0.018	0.025
		-0.02	-0.02	-0.03	-0.05	-0.03	-0.03	-0.03
BOARD COMPOSITION FACTOR	-	-0.076**	-0.071**	-0.198**	0.058**	0.083**	0.130	-0.024
		-0.03	-0.03	-0.08	-0.03	-0.04	-0.08	-0.04
LN_LEVERAGE	+	0.331	0.358	0.476	1.881***	-0.612**	0.263	-0.074
		-0.25	-0.29	-0.45	-0.71	-0.26	-0.23	-0.42
LN_GROWTH	-	-0.000	-0.006	-0.056	-0.171	-0.006	0.005	-0.082
		-0.07	-0.08	-0.13	-0.33	-0.25	-0.12	-0.26
LN_SIZE	+	-0.134***	-0.126**	0.057	-0.006*	-0.072	0.003	-0.166*
		-0.05	-0.05	-0.08	0	-0.08	0	-0.09
L.ADJT OBINQ		-0.076	-0.107	-0.555**	-0.128	0.288**	0.328**	0.022
		-0.1	-0.11	-0.26	-0.15	-0.14	-0.14	-0.08
YEAR DUMMY		Yes	Yes	Yes	Yes	Yes	Yes	Yes
INDUSTRY DUMMY		Yes	Yes	Yes	Yes	Yes	Yes	Yes
N		129	128	45	48	60	228	315

Note: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

ADJ TOBIN'S Q is Adjusted market measure. INDEPENDENCE FACTOR includes independent of the board of directors and independent of the audit committee. FAMILY FACTOR includes family ownership and relatives. BOARD FACTOR includes of board size, board meeting, audit committee size and audit committee meeting. GOVERNMENT FACTOR includes government ownership and government officials on the board. EFFECTIVENESS FACTOR includes audit committee expertise and institutional ownership. EXPERTISE FACTOR includes royal family members on the board and big 4 audit committee. BOARD COMPOSITION FACTOR includes CEO duality and female directors on the board. LN_LEVERAGE is the natural logarithm of total liabilities divided by total assets. LN_GROWTH is the natural logarithm of change in net sales divided by total assets. LN_SIZE is the natural logarithm of the total assets.

Table C.5.B. GMM Regression – CG, and Firm Performance (ADJ ROA)- Individual Country - Model One

	Expected sign	UAE	UAE_AB	UAE_DU	BH	Qatar	Oman	SA
_CONS		0.264	0.276	-0.976	0.148*	0.046	0.134***	0.186
		-0.29	-0.3	-0.95	-0.08	-0.13	-0.04	-0.15
INDEPENDENCE FACTOR	+	0.002	0.002	-0.041**	0.044***	0.004	0.006	-0.001
		-0.01	-0.01	-0.02	-0.01	0	-0.01	0
FAMILY FACTOR	+	0.004	0.003	0.063	0.007	0.004	0.002	-0.010
		-0.02	-0.02	-0.03	-0.02	-0.01	-0.01	-0.01
BOARD FACTOR	+	-0.008	-0.007	-0.035***	-0.001	0.000	-0.008	0.003
		-0.01	-0.01	-0.01	-0.01	0	-0.01	0
GOVERNMENT FACTOR	-	0.008*	0.010	-0.092*	0.006*	0.013*	-0.013	0.008*
		-0.02	-0.02	-0.07	-0.01	-0.01	-0.01	-0.01
EFFECTIVENESS FACTOR	+	-0.019**	-0.020**	-0.030**	-0.006	-0.013***	0.013**	-0.005
		-0.01	-0.01	-0.02	-0.01	0	-0.01	0
EXPERTISE FACTOR	+	-0.007	-0.008	-0.034	-0.002	0.007	-0.006	0.007
		-0.01	-0.01	-0.03	-0.01	-0.01	-0.01	-0.01
BOARD COMPOSITION FACTOR	-	0.013	0.013	-0.059**	0.001	0.008	0.007	0.001
		-0.01	-0.01	-0.03	0	-0.01	-0.01	0
LN_LEVERAGE	+	0.000	0.010	0.314*	-0.082	-0.086***	-0.126*	0.054
		-0.08	-0.07	-0.16	-0.16	-0.03	-0.07	-0.05
LN_GROWTH	-	-0.026	-0.019	-0.045	0.281***	0.0284	0.1658*	0.048**
		-0.04	-0.04	-0.05	-0.09	-0.02	-0.08	-0.02
LN_SIZE	+	0.008	0.008	0.088	-0.001	0.010	0.001*	-0.001
		-0.02	-0.02	-0.07	0	-0.01	0	-0.01
L.ADJ ROA		0.308**	0.262**	0.227**	0.162	0.108*	0.155**	-0.116
		-0.12	-0.13	-0.11	-0.14	-0.06	-0.08	-0.08
N		129	128	45	48	60	228	315

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

ADJ ROA is Adjusted return on assets. *INDEPENDENCE FACTOR* includes independent of the board of directors and independent of the audit committee. *FAMILY FACTOR* includes family ownership and relatives. *BOARD FACTOR* includes of board size, board meeting, audit committee size and audit committee meeting. *GOVERNMENT FACTOR* includes government ownership and government officials on the board. *EFFECTIVENESS FACTOR* includes audit committee expertise and institutional ownership. *EXPERTISE FACTOR* includes royal family members on the board and big 4 audit committee. *BOARD COMPOSITION FACTOR* includes CEOD duality and female directors on the board. *LN_LEVERAGE* is the natural logarithm of total liabilities divided by total assets. *LN_GROWTH* is the natural logarithm of change in net sales divided by total assets. *LN_SIZE* is the natural logarithm of the total assets.

Table C.6.A GMM Regression – CG, and Firm Value (ADJ TOBIN'S Q)- Individual Country - Model Two

	Expected sign	UAE	UAE AB	UAE DU	BH	Qatar	Oman	SA
_CONS		1.506	1.394	1.123	0.962*	11.421***	-0.332	4.167***
		-1.23	-1.26	-1.25	-0.52	-2.81	-0.43	-1.23
FAMC_DUMMY	+							0.014
								-0.34
STATC_DUMMY	-							1.400*
								-0.79
INSTITC_DUMMY	+							0.085
								-0.66
CEOD	-	-0.659	-0.479	7.925*	0.261		0.717***	
		-0.92	-0.9	-15.17	-0.48		-0.12	
IND	+	0.083	0.086	0.389*	-1.021***	0.093	0.029	-0.031
		-0.06	-0.06	-0.21	-0.09	-0.32	-0.12	-0.14
ROYAL	+	0.450**	0.416***	0.544	-0.811**	-2.443***	-0.263	-0.040
		-0.2	-0.15	-0.77	-0.37	-0.82	-0.65	-0.53
LN_BSIZE	+	-0.006*	-0.001	0.014	0.034**	-0.064	0.025	0.058**
		-0.02	-0.02	-0.03	-0.01	-0.06	-0.02	-0.03
ROYAL_BIG4 ⁹⁷	+	0.634	0.700*	0.289	1.346	-8.069*		1.464***
		-0.42	-0.37	-1.31	-2.84	-4.33		-0.52
LN_LEVERAGE	-	0.240	0.241	0.544**	1.619***	0.385*	0.240	-0.462**
		-0.17	-0.17	-0.28	-0.24	-0.2	-0.18	-0.23
LN_GROWTH	+	-0.008	-0.029	-0.085	-0.021	-0.159	-0.032	-0.041
		-0.05	-0.06	-0.09	-0.11	-0.1	-0.08	-0.17
LN_SIZE	+	-0.111	-0.109	0.031	-0.008***	-0.391***	0.003*	-0.154*
		-0.07	-0.07	-0.08	0	-0.1	0	-0.08
BIG4		-0.049	-0.044		0.326	0.021	-0.076*	0.006
		-0.03	-0.03		-0.39	-0.04	-0.04	-0.06
L.ADJ TOBIN' S Q		-0.119	-0.147	-0.817***	-0.227***	0.013	0.286*	-0.024
		-0.11	-0.09	-0.24	-0.08	-0.05	-0.15	-0.08
YEAR DUMMY		Yes	Yes	Yes	Yes	Yes	Yes	Yes
INDUSTRY DUMMY		Yes	Yes	Yes	Yes	Yes	Yes	Yes
N		129	128	45	48	60	228	315

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

ADJ TOBIN'S Q is Adjusted market measure. FAMC_DUMMY is a dummy variable of family ownership. STATC_DUMMY is a dummy variable of state ownership. INSTITC_DUMMY is a

⁹⁷ even though the variable is part of the model in Oman, the GMM regression omitted this variable, similar results observed with Big4 in Dubai

dummy variable of institutional ownership. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *IND* is the ratio of independent director to the total directors. *ROYAL* is the ratio of royal family member to the total directors.. *LN_BSIZE* is natural logarithm of the board size. *ROYAL_BIG4* is interaction term between royal family members on the board and big 4 audit firm. *LN_LEVERAGE* is natural logarithm of total liabilities divided by total assets. *LN_GROWTH* is natural logarithm of the annual change in net sales divided by average total assets. *LN_SIZE* is natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table C.6.B GMM Regression – CG, Firm Performance (ADJ ROA)- Individual Country - Model Two

	Expected sign	UAE	UAE AB	UAE DU	BH	Qatar	Oman	SA
		Coeff./SE	Coeff./SE	Coeff./SE	Coeff./SE	Coeff./SE	Coeff./SE	Coeff./SE
CONS		0.272	0.282	-0.779	-0.026	1.718***	0.243**	0.162
		-0.42	-0.43	-1.1	-0.26	-0.28	-0.11	-0.18
FAMC_DUMMY	+							0.062
								-0.05
STATC_DUMMY	-							0.268***
								-0.09
INSTITC_DUMMY	+							0.082
								-0.06
CEOD	-	0.373	0.349	16.314**	0.050		0.083*	
		-0.26	-0.25	-6.41	-0.21		-0.04	
IND	+	-0.013	-0.013	-0.132***	0.093***	0.111***	0.053	
		-0.02	-0.02	-0.05	-0.03	-0.02	-0.04	-0.02
ROYAL	+	-0.053	-0.062	-0.161	-0.103	-0.467***	0.334**	0.316
		-0.14	-0.14	-0.29	-0.2	-0.09	-0.15	-0.19
LN_BSIZE	+	0.009*	0.009*	0.006**	0.007	0.016***	-0.001	-0.002
		-0.01	-0.01	0	-0.01	0	-0.01	0
ROYAL_BIG4	+	0.056	0.045	0.850	3.954***	-0.767***		0.129***
		-0.17	-0.16	-0.78	-0.8	-0.25		-0.05
LN_LEVERAGE	-	0.032	0.034	-0.041	-0.018	0.052**	-0.085*	-0.001
		-0.05	-0.05	-0.2	-0.11	-0.02	-0.05	-0.03
LN_GROWTH	+	-0.009	-0.007	-0.046	0.131*	-0.007	0.103**	0.038**
		-0.04	-0.04	-0.05	-0.07	-0.01	-0.05	-0.02
LN_SIZE	+	-0.010*	-0.010	0.062	-0.001*	-0.044***	0.001	0.008
		-0.02	-0.02	-0.08	0	-0.01	0	-0.01
BIG4		-0.003	-0.004		0.039	-0.001	-0.025*	0.005
		-0.01	-0.01		-0.18	-0.01	-0.01	-0.01
L.ADJ ROA		0.213	0.207	0.037	-0.047	0.038*	0.097	-0.057
		-0.15	-0.15	-0.17	-0.14	-0.02	-0.08	-0.07
N		129	128	45	48	60	228	315

Notes: * ** and *** denote significant at 10%, 5% and 1% levels respectively

ADJ ROA is Adjusted return on assets. *FAMC_DUMMY* is a dummy variable of family ownership. *STATC_DUMMY* is a dummy variable of state ownership. *INSTITC_DUMMY* is a dummy variable of institutional ownership. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *IND* is the ratio of independent

director to the total directors. *ROYAL* is the ratio of royal family member to the total directors. *LN_BSIZE* is natural logarithm of the board size. *ROYAL_BIG4* is interaction term between royal family members on the board and big 4 audit firm. *LN_LEVERAGE* is natural logarithm of total liabilities divided by total assets. *LN_GROWTH* is natural logarithm of the annual change in net sales divided by average total assets. *LN_SIZE* is natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table C.7. ROBUSTNESS TEST .GMM Regression – CG, Firm Performance and Firm Value- GCC Countries

	Period Expected sign	Corruption			Minority protection					
		LN TOBIN'S Q	LN ROA	LN ROE	LN TOBIN'S Q	LN ROA	LN ROE	LN TOBIN'S Q	LN ROA	LN ROE
		0.16	0.147**	0.204**	0.000	0.119***	0.210***	0.000	0.119**	0.210**
CONS		-0.54	-0.03*	*-0.05	-0.23	-0.03	-0.05	-0.23	*-0.03	*-0.05
FAMC_DUMMY	+	-0.198	0.011***	0.015***	-0.272*	0.008*	0.011*	-0.262*	0.009*	0.012*
		-0.15	0	0	-0.14	0	-0.01	-0.14	0	-0.01
STATC_DUMMY	-	-0.139	0.000	-0.007	-0.206	-0.002	-0.01	-0.221	-0.003	-0.011
		-0.16	-0.01	-0.01	-0.16	-0.01	-0.01	-0.16	-0.01	-0.01
INSTITC_DUMMY	+	-0.032	0.005	0.003	-0.187	0.001	-0.002	-0.177	0.002	-0.001
		-0.16	-0.01	-0.01	-0.16	-0.01	-0.01	-0.16	-0.01	-0.01
CEOD	-	-0.059	0.001	0.000	-0.108	-0.002	-0.002	-0.132	-0.002	-0.003
		-0.18	-0.01	-0.01	-0.18	-0.01	-0.01	-0.19	-0.01	-0.01
IND	+	-0.085	-0.007	-0.014	-0.319	-0.003	-0.008	-0.330	-0.004	-0.008
		-0.32	-0.01	-0.02	-0.36	-0.01	-0.02	-0.36	-0.01	-0.02
ROYAL	+	-0.160	0.058	0.078	-1.7684	0.159	0.22	-2.012	0.154	0.209
		-1.97	-0.08	-0.1	-3.25	-0.12	-0.18	-3.35	-0.12	-0.18
LN_BSIZE	+	-0.059	0.043	0.007*	-0.070	0.003	0.006*	-0.058	0.004	0.007*
		-0.06	0	0	-0.06	0	0	-0.06	0	0
LN_GROWTH	+	-0.150	-0.006	-0.026	0.016	-0.004	-0.023	-0.155	-0.006	-0.025
		-0.2	-0.01	-0.02	-0.28	-0.01	-0.04	-0.2	-0.01	-0.02
LN_LEVERAGE	-	0.019	0.041	0.104*	-0.009	0.066	0.154*	-0.101	0.0621	0.147*
		-0.37	-0.03	-0.06	-0.48	-0.04	-0.09	-0.48	-0.04	-0.09
LN_SIZE	+	0.001	-0.003***	-0.003***	0.003	-0.003***	-0.002***	-0.000	-0.003***	-0.002***
		-0.01	0	0	-0.01	0	0	-0.01	0	0
BIG4	+	-0.053	0.004	-0.001	-0.062	0.005	-0.001	-0.058	0.005	-0.001
		-0.13	0			0	-0.01	-0.13	0	-0.01
CEO_PERIOD	-	0.249	-0.003	-0.004						
		-0.16	-0.01	-0.01						
CORRUPTIONSCORE	-				0.051	0.001	0.000			
					-0.04	0	0			
PROTECTIONOFMINORITY	+							0.462	0.010	0.007
								-0.33	-0.01	-0.02
L.LN_TOBIN'S Q		-0.042			-0.034			-0.017		
		-0.03			-0.03			-0.03		
L.LN_ROA			-0.168**			-0.154*			-0.1667**	
			-0.08			-0.08			-0.08	

L.LN_ROE			-0.095			-0.064			-0.0793
			-0.09			-0.1			-0.09
YEAR DUMMY	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
INDUSTRY DUMMY	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
COUNTRY DUMMY	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	408	408	408	403	403	403	403	403	403

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_TOBIN'S Q is natural logarithm of market value measure. *LN_ROA* is natural logarithm of return on assets. *LN_ROE* is natural logarithm of return on equity. *FAMC_DUMMY* is a dummy variable of family ownership. *STATC_DUMMY* is a dummy variable of state ownership. *INSTITC_DUMMY* is a dummy variable of institutional ownership. *CEOD* a dummy variable that takes the value of one if the CEO also serve as Chairman of the board and Zero otherwise. *IND* is the ratio of independent director to the total directors. *ROYAL* is the ratio of royal family member to the total directors. *LN_BSIZE* is the natural logarithm of the total number of directors on the board. *LN_GROWTH* is the natural logarithm of the annual change in net sales divided by total assets. *LN_LEVEVERGE* is the natural logarithm of total liabilities divided by total assets. *LN_SIZE* is the natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise. *PERIOD* is a dummy variable takes value of one if the year 2009 and 2010 and zero otherwise. *CEOD_PERIOD* is interaction term between CEO duality and period. *CORRUPTION* is score based on corruption index in World Bank. *PROTECTIONOFMINORITY* is score based on protection of minority index in World Bank.

Appendix D: Royal Family, Firm Performance and Firm Value- Saudi Arabia

Figure 10 Normal Probability plots for Royal Family Members, Firm Performance, Firm Value⁹⁸

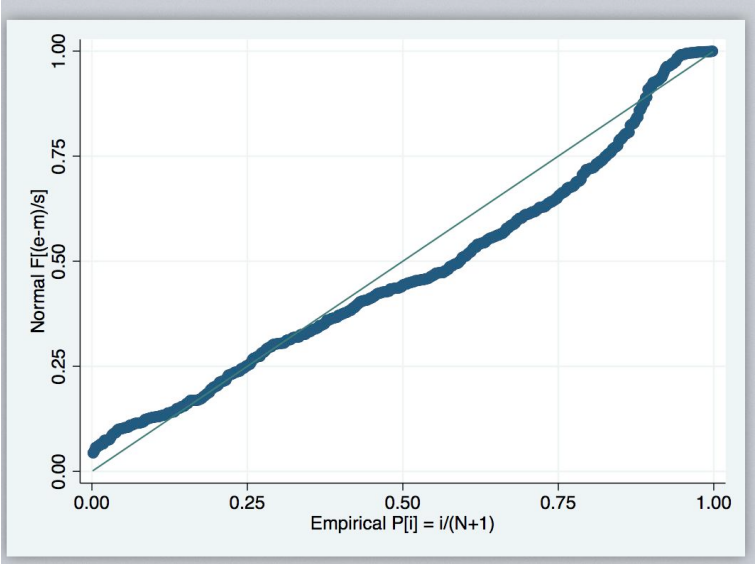
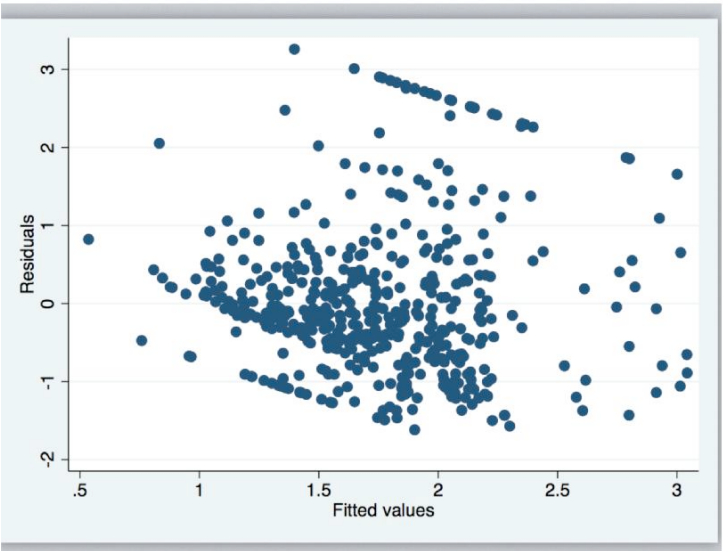


Figure 11 The Residual Versus Fitted Values Plot for Royal Family Memebers, Firm Performance, and Firm Value



⁹⁸ These results before the transformation of the number of the variables.

Table D.1 STATIONARITY TEST – Royal Family Members and Firm Value - Saudi Arabia								
	Inverse chi-squared P		Inverse normal Z		Inverse logit t L*		Modified inv. chi-squared Pm	
	stat	p-value	stat	p-value	stat	p-value	stat	p-value
TOBIN'S Q	289.006	0	-0.984	0.162	-3.076	0.001	4.573	0
MEETR	207.766	0.302	-9.922	0	-21.384	0	0.490	0.311
INDR	1.671	1	0.618	0.732	0.576	0.713	-9.865	1
ROYAL	75.501	1	-1.526	0.063	-6.516	0	-6.155	1
BSIZE	42.521	1	-0.499	0.308	-0.454	0.325	-7.813	1
LEVERAGE	741.569	0	-5.247	0	-14.644	0	27.315	0
GROWTH	856.719	0	-11.202	0	-20.425	0	33.101	0
BIG4	23.893	1	1.433	0.924	1.378	0.914	-8.749	1

Table.D.2.A. AIC and BIC Test - Royal Family Members and Firm Value- Saudi Arabia								
	M1	M2	M3	M4	M5	M6	M7	M8
	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC	AIC/BIC
aic	1430.11	1410.14	1411.8	1413.7	1391.01	1361.5	1361.05	1278.3
bic	1438.51	1422.73	1428.58	1434.69	1416.19	1395.07	1398.82	1366.43

Table.D.2.B. Step-Wise Test-- Royal Family Members and Firm Value- Saudi Arabia								
	M1	M2	M3	M4	M5	M6	M7	M8
LN_MEETR	0.928	-1.805	-2.354	-2.367	-2.376	-2.197	-1.972	5.694**
	-1.21	-1.32	-1.62	-1.62	-1.58	-1.53	-1.54	-2.57
INDR		1.139***	1.112***	1.111***	1.173***	0.870***	0.862***	0.819***
		-0.24	-0.25	-0.25	-0.24	-0.24	-0.24	-0.24
ROYAL			0.751	0.743	0.629	0.869	0.745	-1.588
			-1.28	-1.28	-1.25	-1.22	-1.22	-1.12
LN_BSIZE					-1.942***	-1.895***	-1.934***	-1.531***
					-0.39	-0.38	-0.38	-0.35
LN_LEVERAGE						-1.620***	-1.782***	-1.043***
						-0.29	-0.31	-0.28
LN_GROWTH						1.613***	1.498***	0.193
						-0.55	-0.55	-0.56
BIG4							0.149	0.144
							-0.1	-0.1
LN_SIZE								-47.700***
								-15.61
_CONS	1.736***	1.715***	1.706***	1.711***	6.727***	6.530***	6.642***	5.260***
	-0.05	-0.05	-0.05	-0.05	-1	-0.99	-0.99	-0.91
R2	0.0012	0.0449	0.0456	0.0458	0.0926	0.1524	0.1567	0.3926
N	491	491	491	491	491	491	491	491

Table.D.3.A. OLS Regression. Royal Family Members, Firm Performance and Firm Value

	Expected sign	TOBIN'S Q	LN_ROA	LN_ROE
_CONS		2.204***	-0.141**	-0.295***
		-0.42	-0.06	-0.09
LN_MEETR	+	-1.970*	-0.286	-0.587**
		-1.18	-0.23	-0.3
INDR	+	0.331***	0.046**	0.051*
		-0.1	-0.02	-0.03
ROYAL	+	-0.161	0.153*	0.251**
		-0.43	-0.08	-0.13
LN_BSIZE	+	-0.238	0.041	0.094**
		-0.17	-0.03	-0.04
LN_LEVERAGE	-	-0.798***	-0.195***	-0.105**
		-0.16	-0.03	-0.04
LN_GROWTH	+	0.838***	0.261***	0.345***
		-0.24	-0.05	-0.07
LN_SIZE	+	-0.056***	0.007**	0.007
		-0.02	0	0
BIG4	+	0.041	0.018***	0.025***
		-0.04	-0.01	-0.01
MEETR_LEVERAGE	-	5.423	0.478	1.371
		-3.61	-0.54	-0.84
R2		0.217	0.332	0.279
N		491	491	491

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

LN_TOBIN'S Q is natural logarithm of market value measure. *LN_ROA* is natural logarithm of return on assets. *LN_ROE* is natural logarithm of return on equity. *LN_MEETR* is natural logarithm of weighted average of royal family attendance at board meetings. *INDR* is the independence of royal family members on the board. *ROYAL* is the ratio of royal family member to the total directors. *LN_BSIZE* is natural logarithm of the board size. *LN_LEVERAGE* is natural logarithm of total liabilities divided by total assets. *LN_GROWTH* is natural logarithm of the annual change in net sales divided by average total assets. *LN_SIZE* is natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table.D.3.B. Panel Data Regression. Royal family Members, Firm Performance and Firm Value				
	Expected sign	LN_TOBIN'S Q	LN_ROA	LN_ROE
_CONS		2.529***	-0.046	-0.148
		-0.79	-0.1	-0.14
LN_MEETR	+	-3.157**	-0.098	-0.454
		-1.42	-0.11	-0.29
INDR	+	0.619***	0.028***	0.044***
		-0.12	-0.01	-0.02
ROYAL	+	-0.549	0.164	0.134
		-0.74	-0.16	-0.23
LN_BSIZE	+	-0.126	0.027	0.063
		-0.3	-0.04	-0.05
LN_LEVERAGE	-	-0.572*	-0.133***	-0.078
		-0.3	-0.04	-0.05
LN_GROWTH	+	0.453*	0.075***	0.087**
		-0.26	-0.02	-0.04
LN_SIZE	+	-0.125***	0.007	0.009
		-0.04	0	-0.01
BIG4	+	-0.025	0.004	0.005
		-0.05	0	-0.01
MEETR_LEVERAG	-	7.993**	0.142	1.533
		-3.9	-0.29	-1.27
N		491	491	491

Notes:*, **, and *** denote significant at 10%, 5% and 1% levels respectively.

LN_TOBIN'S Q is natural logarithm of market value measure. *LN_ROA* is natural logarithm of return on assets. *LN_ROE* is natural logarithm logarithm of weighted average of royal family attendance at board meetings. *INDR* is the independence of royal family members on the board. total directors. *LN_BSIZE* is natural logarithm of the board size. *LN_LEVERAGE* is natural logarithm of total liabilities divided by total assets. change in net sales divided by average total assets. *LN_SIZE* is natural logarithm of total assets. *BIG4* is a dummy variable that takes the value BIG4 and zero otherwise.

Table D.4. A. ROBUSTNESS TEST- Descriptive Statistics of Royal Family Members, Firm Performance Arabia

Variable	Mean	Median	Std. Dev.	Min	Max
ADJ TOBIN'S Q	0.219	0	0.947	-1.081	2.90
ADJ ROA	0.012	0	0.078	-0.183	0.213
MEETR	0.012	0	0.041	0	0.28
INDR	0.046	0	0.21	0	1
ROYAL	0.022	0	0.048	0	0.2
BSIZE	8.289	9	1.512	4	12
LEVERAGE	0.376	0.337	0.224	0.041	0.955
GROWTH	0.043	0.025	0.121	-0.441	0.458
LN_SIZE	13.182	13.17	1.064	8.034	16.328

N= 491

Notes: *ADJ TOBIN'S Q* is adjusted market value measure. *ADJ ROA* is adjusted return on assets. *MEETR* is weighted average of royal family attendance at board meetings. *INDR* is the independence of royal family members on the board. *ROYAL* is the ratio of royal family member to the total directors.. *BSIZE* is the board size. *LEVERAGE* is total liabilities divided by total assets. *GROWTH* is the annual change in net sales divided by total assets. *LN_SIZE* is natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise

Table D.4.B. ROBUSTNESS TEST- Correlation Matrix of Royal Family Members, Firm Performance and Firm Value- Saudi Arabia

	ADJ TOBIN'S Q	ADJ ROA	MEETR	INDR	ROYAL	BSIZE	LEVERAGE	GROWTH	LN_SIZE	BIG4
ADJ TOBIN'S Q	1									
ADJ ROA	0.418*	1								
MEETR	0.034	0.115*	1							
INDR	0.203*	0.247*	0.4400*	1						
ROYAL	0.058	0.179*	0.6499*	0.414*	1					
BSIZE	-0.149*	0.115*	0.017	0.046	0.009	1				
LEVERAGE	-0.294*	-0.198*	-0.026	-0.207*	-0.035	0.024	1			
GROWTH	0.102*	0.229*	0.037	-0.008	-0.001	-0.002	0.220*	1		
LN_SIZE	-0.351*	0.044	0.02	-0.059	-0.053	0.408*	0.480*	0.03	1	
BIG4	-0.046	0.070	-0.063	-0.070	-0.000	0.055	0.357*	0.199*	0.168	1

Notes: *ADJ TOBIN'S Q* is adjusted market value measure. *ADJ ROA* is adjusted return on assets. *MEETR* is weighted average of royal family attendance at board meetings. *INDR* is the independence of royal family members on the board. *ROYAL* is the ratio of royal family member to the total directors. *BSIZE* is the board size. *LEVERAGE* is total liabilities divided by total assets. *GROWTH* is the annual change in net sales divided by total assets. *LN_SIZE* is natural logarithm of total assets. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table.D.5. ROBUSTNESS TEST – GMM Regression - Royal Family, Firm Performance, and Firm Value- Saudi Arabia

	Expected sign	Model 1		Model 2	
		ADJ TOBIN'S Q	ADJ ROA	ADJ TOBIN'S Q	ADJ ROA
_CONS		31.217***	-0.875	30.092***	-0.615
		-10.19	-2.16	-10.05	-2.12
LN_MEETR	+	-1.841	0.479***	-1.449	0.397***
		-1.46	-0.13	-1.38	-0.13
INDR	+	0.569***	0.034*	0.739***	0.073***
		-0.12	-0.02	-0.08	-0.01
ROYAL	+	-0.338	0.353	-0.474	0.366
		-1.1	-0.35	-1.09	-0.36
LN_BSIZE	+	-0.106	0.058	-0.04	0.043
		-0.44	-0.05	-0.46	-0.05
LN_LEVERAGE	-	-0.016	0.03	-0.008	0.028
		-0.38	-0.04	-0.38	-0.04
LN_GROWTH	+	-0.061	0.055**	-0.066	0.055**
		-0.24	-0.03	-0.25	-0.03
LN_SIZE	+	-9.462***	0.272	-9.163***	0.204
		-3.23	-0.67	-3.18	-0.66
BIG4	+	-0.037	0.004	-0.036	0.004
		-0.05	-0.01	-0.05	-0.01
MEETR_LEVERAGE	-	3.098	-2.218***	2.652	-2.111***
		-3.78	-0.63	-3.65	-0.62
INDR_KING_DIRECT ⁹⁹	+			-0.343**	-0.078***
				-0.14	-0.02
L.ADJ TOBINQ		-0.074		-0.069	
		-0.09		-0.09	
L.ADJ ROA			-0.072		-0.082
			-0.13		-0.12
YEAR DUMMY	Yes	Yes	Yes	Yes	Yes
INDUSTRY DUMMY	Yes	Yes	Yes	Yes	Yes
N	227	227	227	227	227

Notes: *, ** and *** denote significant at 10%, 5% and 1% levels respectively

ADJ TOBIN'S Q is adjusted market value measure. ADJ ROA is adjusted return on assets. LN_MEETR is natural logarithm of weighted average of royal family attendance at board meetings. INDR is the independence of royal family members on the board. ROYAL is the ratio of royal family member to the total directors. LN_BSIZE is natural logarithm of the board size. LN_LEVERAGE is natural logarithm of total liabilities divided by total assets. LN_GROWTH is natural logarithm of the annual change in net sales divided by average total assets. LN_SIZE is natural logarithm of total assets. BIG4 is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise. MEETR_LEVERAGE is an interaction term between royal directors attendance at board meetings and leverage. INDR_KING_DIRECT is an interaction term between INDR and royal family members on the board close related to the current Saudi King.

⁹⁹ KING_DIRECT is Royal family members on the board closely related to the Saudi King is omitted by GMM regression.

Table.D.6. ROBUSTNESS TEST (Two Interaction) – GMM Regression. Royal Family Members, Firm Performance, and Firm Value - Saudi Arabia

	Expected sign	LN_TOBIN'S Q	ADJ TOBIN'S Q	LN_ROA	ADJ ROA	LN ROE
_CONS		1.337	5.647**	-0.424	-0.631*	-0.657*
		-3.63	-2.52	-0.31	-0.37	-0.37
LN_MEETR	+	0.904	0.206	0.414**	0.229	0.512**
		-2.61	-1.75	-0.19	-0.23	-0.25
INDR	+	1.775***	0.730***	0.014*	0.045**	0.017
		-0.31	-0.1	-0.01	-0.02	-0.01
ROYAL	+	-1.671	-0.747	0.125	0.39	0.175
		-2.48	-1.16	-0.23	-0.36	-0.3
LN_BSIZE	+	-0.38	-0.055	0.041	0.053	0.064
		-0.87	-0.44	-0.03	-0.05	-0.05
LN_LEVERAGE	-	0.692	0.273	-0.012	-0.092*	0.073
		-0.73	-0.4	-0.05	-0.05	-0.06
LN_GROWTH	+	0.015	-0.033	0.039	0.057**	0.063
		-0.36	-0.24	-0.02	-0.03	-0.04
LN_SIZE	+	-0.006	-0.357**	0.032	0.050**	0.046*
		-0.23	-0.17	-0.02	-0.02	-0.03
BIG4	+	-0.069	-0.036	0.006	0.004	0.002
		-0.11	-0.06	-0.01	-0.01	-0.01
MEETR_LEVERAGE	-	0.261	-0.437	-1.114**	-1.461***	-1.732***
		-6.3	-4.14	-0.47	-0.52	-0.63
MEETR_INDR	+	10.417***	3.430*	-0.086	0.309	-0.088
		-3.4	-1.82	-0.14	-0.25	-0.18
L.LN_TOBIN'S Q		0.065				
		-0.04				
L.ADJ TOBIN'S Q			-0.032			
			-0.1			
L.LN_ROA				-0.148		
				-0.11		
L.ADJ ROA					-0.073	
					-0.12	
L.ADJ ROE						-0.105
						-0.11
Year dummy	Yes	Yes				
Industry dummy	Yes	Yes				
N	277	277	277	277	277	277

Notes: *, **, and *** denote significant at 10%, 5% and 1% levels respectively.

LN_TOBIN'S Q is a natural logarithm of market value measure. ADJ TOBIN'S Q is adjusted market value measure. LN_ROA is a natural logarithm of return on assets. ADJROA is adjusted return on assets. LN_ROE is a natural logarithm of return on equity. LN_MEET is natural logarithm of weighted average of royal family attendance at board meetings. INDR is the independence of royal family members on the board. ROYAL is the ratio of royal family member to the total directors. LN_SIZE is natural logarithm of the board size. LN_LEVERAGE is natural logarithm of total liabilities divided by total assets. LN_GROWTH is natural logarithm of the annual change in net sales divided by total assets. LN_SIZE is natural logarithm of total assets. BIG4 is a dummy variables that takes the value of one if the company is audited by one of the BIG 4 and zero otherwise. MEET_LEVERAGE is an interaction term between royal directors attendance at board meetings and leverage. MEETR_INDR is an interaction term between royal directors attendance at board meetings and independence of royal family members on the board.

Table.D.7. ROBUSTNESS TEST-Descriptive Statistics- Royal Family Members and Scaled Capital Expenditure- Saudi Arabia

Variable	Mean	Median	Std. Dev.	Min	Max
CAPEX	9.85	3.07	1.54	1.54E	5.99
TOBIN'SQ	1.757	1.458	1.044	0.283	4.657
CFS	24.417	19.180	21.116	-15.539	65.258
DA	0.198	0.176	0.181	0	0.531
CR	0.121	0.070	0.125	0.010	0.473
LogPB	0.310	0.292	0.222	-0.060	0.767
MEETR	0.012	0	0.042	0	0.28
INDR	0.049	0	0.216	0	1
ROYAL	0.022	0	0.048	0	0.2
BSIZE	8.277	8	1.496	4	12
BIG4	0.585	1	0.493	0	1
N=468					

Notes: *CAPEX* is the natural expenditure. *TOBIN'S Q* is market value measure. *CFS* is cash flow to sales ratio. *DA* is debit to assets ratio. *CR* is firm's cash ratio. *logPB* is the logarithm of price to book ratio. *MEETR* is weighted average of royal family attendance at board meetings. *INDR* is the independence of royal family members on the board. *Royal* is the ratio of royal family member to the total directors. *BSIZE* is the board size. *BIG-4* is a dummy variable that takes the value of one if the company is audited by one of the BIG-4 and zero otherwise.

Table.D.8. ROBUSTNESS TEST -Correlation Matrix - Royal Family Member and Capital Expenditure- Saudi Arabia

	CAPEX	TOBIN'S Q	CFS	DA	CR	Log PB	MEETR	INDR	ROYAL	BSIZE	BIG4	VIF
CAPEX	1											
TOBIN'S Q	-0.119*	1										4.11
CFS	-0.015	0.057	1									1.13
DA	0.059	-0.388*	-0.164*	1								1.55
CR	0.045	0.257*	0.181*	-0.316*	1							1.23
LogPB	-0.212*	0.818*	-0.028	-0.154*	0.109*	1						3.63
MEETR	-0.079	0.028	0.103*	-0.077	0.056	0.075	1					1.88
INDR	-0.048	0.204*	0.248*	-0.224*	0.125*	0.155*	0.442*	1				1.44
ROYAL	-0.094*	0.068	0.123*	-0.080	0.028	0.122*	0.649*	0.417*	1			1.83
BSIZE	0.067	-0.191*	0.115*	0.106*	0.07	-0.227*	0.018	0.050	-0.003	1		1.1
BIG4	0.002	-0.021	-0.130*	0.306*	0.041	0.102*	-0.067	-0.069	-0.006	0.034	1	1.18

Notes: *CAPEX* is the capital expenditure. *TOBIN'S Q* is market value measure. *CFS* is cash flow to sales ratio. *DA* is debt to assets ratio. *CR* is firm's cash ratio. *Log PB* is the logarithm of price to book ratio. *MEETR* is weighted average of royal family attendance at board meetings. *INDR* is the independence of royal family members on the board. *ROYAL* is the ratio of royal family member to the total directors. *BSIZE* is the board size. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise.

Table D.9. ROBUSTNESS TEST– GMM Regression - Royal family Members and Capital Expenditure- Saudi Arabia

	Model 1	Model2
CON	2.27	2.93
	2.68	2.81
LN_TOBIN'SQ	-3.88	-3.97
	6.41	6.40
LN_CFS	-3.52**	-3.47**
	1.08	1.10
DA	-1.44	-1.39
	1.24	1.24
LN_CR	-1.21	-1.09
	1.31	1.31
LogPB	-5.96	-6.33
	1.46	1.47
LN_MEETR	-6.36*	-6.02*
	3.79	3.75
INDR	7.51*	1.27**
	4.96	5.16
ROYAL	-6.31*	-5.95*
	3.55	3.53
LN_BSIZE	5.59	7.96
	1.05	1.10
BIG4	9.41	9.06
	1.42	1.42
INDR_KING_DIRECT ¹⁰⁰		-1.02**
		5.24
L1. LN_CAPEX	0.624	0.621
	0.141	0.140
Year dummy	Yes	Yes
Industry dummy	Yes	Yes

Notes: *, **, and *** denote significant at 10%, 5%, and 1% levels respectively.

¹⁰⁰ KING_DIRECT is Royal family members on the board closely related to the Saudi King is omitted by GMM regression.

CAPEX is the capital expenditure. *LN- TOBIN'S Q* is natural logarithm of market value measure. *LN_CFS* is natural logarithm of cash flow to sales ratio. *DA* is debt to assets ratio. *LN_CR* is natural logarithm of firm's cash ratio. *Log PB* is the logarithm of price to book ratio. *Ln_MEETR* is natural logarithm of weighted average of royal family attendance at board meetings. *INDR* is the independence of royal family members on the board. *ROYAL* is the ratio of royal family member to the total directors. *LN_BSIZE* is natural logarithm of the board size. *BIG4* is a dummy variable that takes the value of one if the company is audited by one of the BIG4 and zero otherwise. *INDR KING DIRECT* is an interaction term between *INDR* and *KING DIRECT*

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