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UAEU

United Arab Emirates University

College of Business and Economics

CORPORATE GOVERNANCE, INSTITUTIONAL FRAMEWORK, AND FIRM PERFORMANCE: EVIDENCE FROM THE UAE

Al Yazia Ali Saleh Ahmed Al Kuwaiti

This dissertation is submitted in partial fulfilment of the requirements for the degree of Doctorate of Business Administration

Under the Supervision of Dr. Chiraz Labidi

April 2019

Declaration of Original Work

I, Al Yazia Ali Saleh Ahmed Al Kuwaiti, the undersigned, a graduate student at the United Arab Emirates University (UAEU), and the author of this dissertation entitled *"Corporate Governance, Institutional Framework, and Firm Performance: Evidence from the UAE"*, hereby, solemnly declare that this dissertation is my own original research work that has been done and prepared by me under the supervision of Dr. Chiraz Labidi, in the College of Business & Economics at UAEU. This work has not previously been presented or published, or formed the basis for the award of any academic degree, diploma or a similar title at this or any other university. Any materials borrowed from other sources (whether published or unpublished) and relied upon or included in my dissertation have been properly cited and acknowledged in accordance with appropriate academic conventions. I further declare that there is no potential conflict of interest with respect to the research, data collection, authorship, presentation and/or publication of this dissertation.

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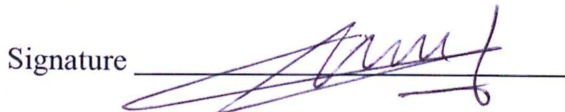
   Signature  Date 21-04-2019

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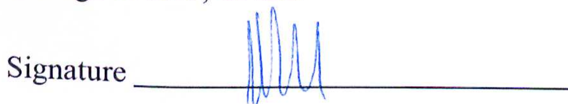
   Signature  Date April 21, 2019

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Abstract

This dissertation is concerned with the state of corporate governance regulations and implementation in the UAE and the extent to which board and corporate ownership structures in UAE listed firms play a role in promoting sound corporate governance and enhancing firms' financial performance. The main objective of this dissertation is to investigate the influence of various corporate governance mechanisms on the financial performance of UAE publicly listed companies. Using ten years of panel data from 92 UAE companies (406 firm-year observations) listed on Abu Dhabi Exchange (ADX) and Dubai Financial Market (DFM), we test the role of board characteristics along with firms' ownership structure on firm performance. Ordinary Least Squares (OLS) along with fixed effect and random effects panel regressions are used. Our results indicate that board independence, women board membership, ownership concentration, lack of CEO/board chair duality and family ownership all have, albeit with varying degrees of significance, positive effects on firm performance. On the contrary, cross ownership and state ownership seem to affect negatively the financial performance of UAE firms. For reasons, most likely, unique to the UAE, the empirical tests conducted by this research do not provide evidence of an impact of board size and foreign ownership on firm performance. Our main findings are robust to different measures of ownership concentration and to two forms of state ownership. They are also robust to further firm characteristics such as the size, age, and leverage and persist for both financial and nonfinancial firms. The dissertation is unique in many respects: it is the first comprehensive work that conducts such all-encompassing test of corporate governance hypotheses on UAE firms. It utilizes a unique database that was, specifically hand-collected for our study. It tests the relevance of corporate governance theories in the specific UAE

institutional and economic setting. The findings of this dissertation are of great importance to the regulators and policy makers to understand the impact of currently adopted corporate governance regulations amongst the listed firms and to develop tailored policies to the context of UAE and suitable mechanisms to enforce those policies and regulations. Our findings may also be generalized to GCC and MENA countries given that they tend to share similar economic, social and political environments.

Keywords: Corporate governance, firm performance, board independence, ownership structure, government ownership.

Title and Abstract (in Arabic)

حوكمة الشركات، الإطار المؤسسي، وأداء الشركات في أسواق دولة الإمارات العربية المتحدة

الملخص

تهدف هذه الرسالة إلى البحث في أنظمة الحوكمة للشركات والتطبيق العملي لها في دولة الإمارات العربية المتحدة. تقدم هذه الرسالة أيضا اختبارا عمليا لدور مجالس إدارات الشركات وتوزيع ملكيتها بين فئات المستثمرين المختلفة، في توطيد ممارسات الحوكمة الرشيدة وتعزيز الأداء المالي للشركات. إن الهدف الرئيسي لهذه الرسالة هو التحقق من تأثير آليات حوكمة الشركات المختلفة على الأداء المالي للشركات المدرجة في أسواق دولة الإمارات العربية المتحدة باستخدام عشر سنوات من البيانات المالية لاثنتين وتسعين شركة إماراتية مدرجة في سوقي أبوظبي للأوراق المالية ودبي المالي خلال الفترة 2008 إلى 2017 (ما مجموعه 406 شركة-سنة) عن طريق اختبار دور التشكيلات المختلفة لمجالس الإدارات والهياكل المختلفة لملكيات الشركات في تنمية وتعزيز الأداء المالي لهذه الشركات.

تشير نتائج الصيغ المختلفة لآليات الانحدار الإحصائي لاحتساب آثار تشكيلات مجالس إدارات الشركات وهياكل ملكياتها إلى التأثير الإيجابي (وإن كان بدرجات متفاوتة) للعوامل التالية على أداء الشركات: استقلالية أعضاء مجلس الإدارة، المشاركة النسائية في عضوية مجالس الإدارات، وتركز الملكية لدى فئة قليلة، وحضور الملكية العائلية، وعدم تمثيل الرئيس التنفيذي في مجلس الإدارة. ومن جهة أخرى تبين نتائج الانحدار أن الملكية المتبادلة وملكية الدولة في الشركات تؤثر سلباً على الأداء المالي للشركات الإماراتية. كما لم تبين نتائج الانحدار لهذا البحث وجود أي تأثير لحجم مجلس الإدارة أو الملكية الأجنبية على أداء الشركة، وقد تعلل هذه النتائج بخصوصية محدودية الملكية الأجنبية في الإمارات وإلى حقيقة وجود سقف محدد لحجم المجلس في القوانين المرعية في الدولة.

تم اختبار قوة ومرونة هذه النتائج باستخدام أكثر من معيار لقياس كل من تركز الملكيات والملكية الحكومية في الشركات، فقد بينت نتائج الانحدار عدم تغير النتائج بغض النظر عن طريقة قياس هذه المتغيرات. كما تظهر قوة النتائج وعدم انخفاض دلالتها الإحصائية عند إدخال متغيرات عملية مثل الحجم، العمر والرفع المالي في كل من الشركات المالية وغير المالية أو باستخدام آليات إحصائية مثل المؤثرات الثابتة والعشوائية.

تُعد هذه الرسالة من الأعمال الأكاديمية القليلة في هذا المجال وتتفرد في العديد من الجوانب العلمية والبحثية؛ فهي أول عمل يقوم بإجراء اختبار بهذا الزخم والشمول لفرضيات الحوكمة الرشيدة على الشركات الإماراتية. كما أنها تستخدم قاعدة بيانات تم جمعها بشكل يدوي خصيصا لهذه الدراسة. وبشكل أكبر، فإن هذه الرسالة تعد إضافة نوعية لأدبيات الحوكمة من خلال مساهمتها في اختبار التطبيق العملي لنظريات وآليات حوكمة الشركات في الإطار المؤسسي والاقتصادي الخاص في دولة الإمارات العربية المتحدة. توفر هذه الرسالة نتائج ذات أهمية كبيرة للهيئات التنظيمية تساعد في قياس تأثير أنظمة حوكمة الشركات المعتمدة حاليًا على أداء الشركات المدرجة والسوق المالي ككل. كما أنها تقدم فحصا عمليا لهذه الأنظمة وتبين مواطن تحسينها وتعزيز إنفاذها للوصول إلى نتائج أفضل ولتعزيز دور الحوكمة في تطوير أداء الشركات والأسواق. ومن الممكن أيضا تعميم هذه النتائج على دول مجلس التعاون الخليجي ودول الشرق الأوسط وشمال أفريقيا نظراً لأنها تميل إلى تجانس بيئتها الاقتصادية والاجتماعية والسياسية.

مفاهيم البحث الرئيسية: حوكمة الشركات، أداء الشركة، استقلال مجلس الإدارة، هيكل الملكية، ملكية الحكومة.

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Dedication

To my beloved mother and family

Table of Contents

Title i
Declaration of Original Work ii
Copyright iii
Advisory Committee iv
Approval of the Doctorate Dissertation v
Abstract vii
Title and Abstract (in Arabic) ix
Acknowledgements xi
Dedication xii
Table of Contents xiii
List of Tables xv
List of Boxes xvi
List of Figures xvii
List of Abbreviations xviii
Chapter 1: Introduction 1
1.1 Importance of Corporate Governance 1
Chapter 2: Literature Review 14
2.1 Theoretical Framework 14
2.2 International Corporate Governance Practice 18
2.3 Corporate Governance and Firm Performance: Empirical Evidence 22
2.3.1 International Evidence 22
2.3.2 GCC Evidence 29
2.3.3 UAE Evidence 36
Chapter 3: Corporate Governance Regulatory Framework 40
3.1 Introduction 40
3.1.1 GCC Capital Markets 40
3.1.2 Listing Process 42
3.2 Regulatory Framework of Corporate Governance in the UAE 48
3.2.1 The 2007 Securities & Commodities Authority Resolution 58
3.2.2 Resolution No. 518 of 2009 by the Ministry of Economy 61

3.2.3 The 2016 Corporate Governance Decision 63
3.2.4 Benchmarking the UAE Regulatory Framework of Corporate Governance to Regional and International Practices 70

3.3 Importance of Good Governance in the UAE: A SWOT Analysis 86

Chapter 4: Corporate Governance Mechanisms and Financial Performance in UAE-Listed Firms 96

4.1 Introduction 96

4.2 Hypothesis Development 97
4.2.1 Board Composition 97
4.2.2 Ownership Structure and Firm Performance 128
4.2.3 Firm-Specific Control Variables 141

4.3 Data and Methodology 143
4.3.1 Sample Description 144
4.3.2 Empirical Model 148

4.4 Results and discussion 150

Chapter 5: Conclusion 171

References 176

List of Tables

Table 1: Listed companies and market capitalization in the MENA region 44

Table 2: Bank corporate governance codes in the Middle East 54

Table 3: Board composition in the Gulf 66

Table 4: Descriptive statistics and correlation matrix 147

Table 5: Impact of board composition and ownership structure on Tobin Q 151

Table 6: Impact of board composition and ownership structure on the ROA 156

Table 7: Impact of board composition and ownership structure on the ROE 158

Table 8: Impact of board composition and ownership structure on Tobin's Q with an alternative ownership concentration measure (OWN_C3) 160

Table 9: Impact of board composition and ownership structure on Tobin's Q with an alternative ownership concentration measure (OWN_C5) 161

Table 10: Impact of board composition and ownership structure on Tobin's Q with alternative state ownership variables (SWF_OWN and GA_OWN) 163

Table 11: Impact of board composition and ownership structure on Tobin's Q for the subsample of non-financial firms 165

Table 12: Impact of board composition and ownership structure on Tobin's Q for the subsample of financial firms 167

Table 13: Impact of board composition and ownership structure on Tobin's Q for the subsample of non-financial firms with alternative state ownership variables (SWF_OWN and GA_OWN) 169

Table 14: Impact of board composition and ownership structure on Tobin's Q for the subsample of financial firms with alternative state ownership variables (SWF_OWN and GA_OWN) 170

Table 15: Summary of the results 172

List of Boxes

Box 1: OECD principles: key recommendations on board structure 19

Box 2: The Cadbury report's 19 recommendations for sound corporate governance practices 21

Box 3: Key regulatory provisions on board composition and responsibilities 63

Box 4: Board independence criteria 68

Box 5: Definition of an independent director in Oman 114

Box 6: Sample companies' distribution among various economic sectors in the UAE 146

List of Figures

Figure 1: Institutional investors categorization.. 46

List of Abbreviations

ADGM	Abu Dhabi Global Market
ADX	Abu Dhabi Exchange
AGE	Firm Age
B_DUAL	CEO Duality
B_IND	Independent Board Membership
B_SIZE	Board Size
B_W	Women's Board Membership
C_OWN	Cross-Ownership
CCL	Commercial Companies Law
CMA	Capital Market Authority
DFM	Dubai Financial Market
DFSA	Dubai Financial Services Authority
DIFC	Dubai International Financial Centre
F_OWN	Foreign Ownership
Fam_OWN	Family Ownership
FTSE	The Financial Times Stock Exchange
GA_OWN	Government Agency Ownership
GCC	Gulf Cooperation Council
IMF	International Monetary Fund
LEV	Leverage
MENA	Middle East and North Africa
MSCI	Morgan Stanley Capital International
OECD	The Organisation for Economic Co-operation and Development
OWN_C	Ownership Concentration

OWN_C3	The Percentages of Shares Held by the Three Largest Shareholders
OWN_C5	The Percentages of Shares Held by the Five Largest Shareholders
ROA	Return on Assets
ROE	Return on Equity
ROSC	Reports on the Observance of Standards and Codes
S&P	Standard and Poors
S_OWN	State Ownership
SAMA	Saudi Arabia Monetary Authority
SCA	Securities and Commodities Authority
SIZE	Firm Size
SWF_OWN	Sovereign Wealth Fund Ownership
TQ	Tobin’s Q
UAE	United Arab Emirates
WB	World Bank

Chapter 1: Introduction

1.1 Importance of Corporate Governance

The importance of corporate governance has been on the rise in the past few decades, since good governance has been proven to play a key role not only in supporting corporate performance, but also in promoting financial and systemic stability (Kirkpatrick, 2009). Recent financial crises and corporate scandals – such as Enron, WorldCom, and, more recently, Satyam and Lehman – have highlighted the costs of a lack of sound corporate governance practices and processes. In particular, the consequences of the last financial crisis have put deficiencies in corporate governance in financial institutions in the spotlight. These events have led to the continued revision and development of new and existing regulations by the Organisation for Economic Co-operation and Development (OECD) and the Basel Committee, (OECD 2015).

Although the United Arab Emirates (UAE) and the wider region of the Middle East and North Africa (MENA) were not at the core of the recent global financial crisis, they were indirectly vastly affected by the propagation of its effects through the increased harmonization of global regulatory standards in corporate governance and the facilitation of cross-border financial and commercial activities. In addition, the UAE has witnessed a number of significant corporate governance failures, such as those of Arabtec and more recently the Abraaj Group.

The revision of the OECD Principles of Corporate Governance (OECD, 2015) is particularly important because a number of corporate governance codes throughout the world (including in the UAE) were inspired and derived from this international standards setting document. These OECD principles have gained even

greater significance through their adoption by the Financial Stability Board and their utilization as a basis for the evaluation of countries in the Reports on the Observance of Standards and Codes (ROSC) of the World Bank and International Monetary Fund.[1]

Governance practices are of prime importance in the UAE's efforts to become a recognized financial centre in the international arena and to attract greater foreign institutional capital following its upgrade to the status of emerging market by prominent international index providers such as MSCI and the Financial Times Stock Exchange (FTSE).[2] They are also critical to protect the UAE's emerging capital market from the shocks and instability that characterized the greater Gulf Cooperation Council (GCC) markets in 2006, 2008, and 2014. Such developments have prompted many regulators in the region (e.g. UAE, Saudi Arabia, and Oman) to pay greater attention to sound governance practices. Accordingly, they now recognize the importance of good governance and have introduced corporate governance codes providing detailed requirements and recommendations regarding board composition, disclosures, and stakeholder relations. Securities regulators, central banks, and other country regulators have instituted corporate governance codes to mitigate governance risks and improve corporate strategic agility.

There are currently several definitions of corporate governance; however, most, if not all, converge on the idea that corporate governance is a set of

[1] The ROSC initiative was launched in 1999 as a prominent effort to strengthen the international financial architecture. The ROSC initiative is administered by the World Bank and International Monetary Fund, which have recognized international standards in 12 policy areas. The World Bank focuses on three of these: accounting and auditing, corporate governance, and insolvency and creditor rights (WB 1999).

[2] Index providers such as MSCI and FTSE upgraded the UAE markets from frontier to emerging status in 2014.

mechanisms intended to protect corporate stakeholders, particularly the shareholders. Two of the leading and most credible doctrines on corporate governance have been articulated by the OECD (published in 1999, revised in 2004 and 2015) and the Cadbury Report, that is, the Financial Aspects of Corporate Governance (published in December 1992). The UAE Commercial Companies Law Number 2 of 2015 defines Corporate Governance as Governance as the set of criteria, standards and procedures that achieve corporate Governance at the management level of the company in accordance with the international standards and practices, by determining the duties and responsibilities of the Directors and the executive management of the company, taking into account the protection of shareholders and stakeholders rights.

According to the OECD, corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the corporation, such as the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing so, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance (OECD, 2015). The purpose of corporate governance is to help build the environment of trust, transparency, and accountability necessary for promoting long-term investment, financial stability, and business integrity, thereby supporting stronger growth and higher standards of economic prosperity for all. Sound corporate governance practices have a large and positive impact on the performance of firms and their ability to raise capital.

Empirical evidence has established that well-governed firms receive higher market valuations and a wider array of capital flows from domestic and global sources, both equity and debt, from both public and private sources (McKinsey & Company, 2009).

Grandmont et al. (2004) study Standard & Poor's (S&P) 500 firms and find that firms with strong or improving corporate governance outperformed those with poor or deteriorating governance practices by about 19% over a two-year period. Equally important and irrespective of the need to access capital, theory and empirical evidence have established that good corporate governance leads to better performance. Improved governance structure and processes are also conjectured to help ensure quality decision making, encourage effective succession planning for senior management, and enhance long-term company prosperity, independent of company type or sector and irrespective of financing sources, (Grandmont et al. 2004).

Importantly, for developing economies, the UAE being one, good governance can help mitigate important financial and non-financial risks that would have greatly helped avoid the financial crises that materialized during the decline in the value of state-owned assets in Dubai in 2008–2009, which led to the restructuring of many government-related entities in the country, including systemically important financial institutions[3] such as the two real estate giants Amlak and Tamweel. Board structure and its influence on firm risk and performance are among the most debated issues of corporate governance today. After the Enron scandal, there has been concern about

[3] Systemically important financial institutions are banks, insurance companies, and other financial institution whose failure could trigger a financial crisis. They are colloquially referred to as 'too big to fail'.

the lack of confidence in the capital markets and the erosion of trust in the institutions of modern capitalism. The global financial crisis that broke out in 2008 added further to the fears of market participants and the general public. In an effort to reform corporate governance, investors and regulators have therefore been requiring companies to improve their disclosure policies, checking the integrity of accounting firms and auditors, and supporting and empowering boards that are independent of the executive management team. Subsequently, the door was opened for more serious work on corporate governance and growing demand for guidance and certified advice for improving the quality of corporate governance systems. Anderson et al. (2004) state that the business environment since the 2008 crisis has been characterized by risk and uncertainty, which makes it difficult for businesses to control and forecast the intangible and tangible factors affecting their performance. They continue to note that sound corporate governance practices have become crucial in driving firms towards better prospects. Specifically, corporate boards play a large role in ensuring the smooth functioning of firms in dynamic business environments and are a key player in implementing and overseeing strategic policies.

Brick, Palmon, and Wald (2006) posit that the latest business failures and corporate scandals have led to an interesting debate regarding whether governance in firms is properly practiced. Countries have reacted to such debacles by passing laws and regulations aimed at enhancing the practices of corporate governance and disclosure (Bushman et al., 2004; Daily, Dalton, & Canella, 2003). In response to these fundamental changes, firms have altered their board structure and corporate charters; nonetheless, the implementation of such new procedures and rules is not without cost for these firms and their shareholders (Niederle & Vesterlund, 2007). This all led to the argument that the main goal of corporate governance is to promote

economic growth by safeguarding the interests of shareholders and channelling capital to investments in the most efficient and productive manner. The lack of good governance, on the other hand, has been highlighted as a key factor contributing to corporate failure and financial crises. The Asian financial crisis and, more recently, the global financial crisis can both be blamed – albeit only partially – on governance failures and deficiencies. The OECD (2011) notes in its analysis of the GFC that corporate governance weaknesses in remuneration, risk management, board practices, and the exercise of shareholder rights played an important role in the development of the crisis and that such weaknesses generally extend to companies. While the governance risks in financial institutions could have been addressed by the wave of regulatory actions following the global financial crisis, new risks have been emerging, especially in the technology sector, with companies such as Uber and Tesla (Harvard Law School Forum, 2018). As established by Haushalter et al. (2002), corporate governance encourages the efficient utilization of resources in firms and in the broader economy. It also helps firms reduce costs of capital through improved creditor and investor confidence within a country and internationally. In addition, sound governance enables firms to be more responsive to societal needs, which leads to improved long-term firm performance (Giese, 2017).

While the global financial crisis that originated in the United States and Western economies had a relatively moderate impact on the capital market environment in GCC countries, a number of the findings and reflections documented in subsequent analyses have been incorporated into the laws and regulations in the region. For instance, although executive compensation has not been subject to rigorous approval, it has transformed greatly in recent years, given the findings and lessons learned from the crisis.

The theoretical and empirical literature shows that board composition has received the greatest attention as an indicator of stability and structure. A board that is appropriately structured is associated with better financial performance, lower risk, and lower capital costs (Paniagua, Rivelles, & Sapena, 2018). This implies that firms with well-composed boards outperform their counterparts with a less structured board composition (McKinsey & Company, 2002).

Proper governance supports firm-wide efficacy as well as fair investor returns. In addition, good governance can benefit a firm through reduced costs of capital, better access to funds, greater discipline, and proper internal controls (Finkelstein & Mooney, 2003). A company with good governance can, for instance, achieve good credit ratings, which can lower the cost of debt financing and raise the valuation of stock prices. [4] Companies with proper corporate governance are sustained by transparent and deep financial markets, adequate resource allocation, and strong legal systems (García, García, & Peñalva, 2009). Companies are, thus, expected to sustain economic and financial stability in addition to enhancing their overall growth rates. Conversely, companies that are poorly governed have low growth rates. It has also been reported that proper corporate governance enhances company performance and supports the prudent allocation and better management of company resources, thus significantly increasing the company's share prices and raising the value of shareholdings (Judge, Naoumova, & Koutzevol, 2003).

The impact of effective corporate governance importance is even more profound in emerging markets. Evidence demonstrates that investors are willing to pay a higher premium for well-governed companies in emerging market jurisdictions

[4] Majd Al Futtaim is a family-owned company in the region with a professional, non-family CEO who has introduced robust corporate governance and has received positive credit ratings as a result.

to balance higher economic and social risks. In a recent study, the International Finance Corporation noted that ‘all surveyed investors expected to pay a higher premium for better governance in an emerging market firm than the premium they might pay for a firm with better governance in developed markets’ (Khanna & Zyla, 2010). The academic literature abounds with studies suggesting that the better a company’s governance system, the greater its performance and immunity to adverse shocks (Ashbaugh-Skaife, Collins & LaFond, 2006; De Andres, Azofra, & Lopez, 2005; Elyasiani, Jia, & Mao, 2010; Ferris, Jagannathan, & Pritchard, 2003). More and more countries are becoming aware of the importance of good corporate governance systems and investors are increasingly lobbying for the adoption of good corporate governance in countries that have been lagging in this area.

The Board of directors plays a central role in the governance of any corporation. The success or failure of a board to fulfil its duties is crucial to the performance of the corporation. The board is considered as an internal control mechanism that oversees the corporation and helps in managing and controlling its risk in support of its stakeholders and investors. Poor board performance in monitoring management and failure to provide strategic guidance can substantially contribute to poor corporate performance, the loss of shareholder wealth, and management corruption. Together with a guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and obtaining an adequate return for the shareholders while preventing conflicts of interest and balancing the corporation’s competing demands. For a board to effectively fulfil its responsibilities, it must be able to exercise objective and independent judgement.

Ashbaugh-Skaife et al. (2006) state that the oversight of firms' risk management and systems designed to ensure that the corporation obeys applicable laws, including tax, competition, labour, environmental, equal opportunity, health, and safety laws is another important board responsibility. In some countries, companies have found it useful to explicitly articulate the responsibilities the board assumes and those for which management is accountable. The board not only is accountable to the company and its shareholders, but also has a duty to act in their best interests. In addition, boards are expected to take due consideration of and fairly handle other stakeholder interests, including those of employees, creditors, customers, suppliers, and local communities. The composition and expertise of boards are therefore critical in good governance. They must be considered in the context of the ownership of any given company, since the boards of controlled companies are tasked with a different set of challenges than the boards of companies with widely dispersed ownership.

Although the empirical research on corporate governance in the UAE has been relatively scant, the concentrated ownership structure of UAE-listed companies requires the careful design of governance mechanisms to protect the interests of investors, facilitate adequate disclosure, and, at the same time, the interests of the founding shareholders. Few studies have focused on the influence of board structure on firm risk and performance in the UAE or countries in the Middle East.

This dissertation thoroughly reviews the literature on the issues surrounding the importance of corporate governance mechanisms to firm performance. It investigates the influence of corporate governance factors that pertain to board construction and ownership structure, which are well established both theoretically

and empirically, on the financial performance of companies listed on the UAE exchanges. Hypotheses based on corporate governance theories are developed and tested with 10 years (2008–2017) of panel data from 92 listed companies (406 firm–year observations) on the Abu Dhabi Securities Exchange and the Dubai Financial Market. Due to the nature of the data, ordinary least squares pooled regressions and panel regressions are used to regress three performance indicators (Tobin's Q, the return on equity (ROE), and the return on assets (ROA)) on theoretically and empirically proposed variables of corporate governance, including board size, board members' independence, CEO–chair duality, and female representation on boards. Another set of independent variables relates to ownership structure and includes ownership concentration and foreign, state, family, and cross-ownerships, along with empirically suggested control variables such as firm size, age, and leverage. Fixed and random effects are also introduced to isolate various effects from the explanatory power of the independent variables.

The dissertation's research questions are as follows:

1. What is the state of corporate governance regulations and their implementation in the UAE?
2. To what extent have firms listed in the UAE financial markets adopted aspects of corporate governance?
3. What is the board structure of firms listed on the UAE financial markets and what is its role in enhancing sound corporate governance and financial performance?
4. Does the corporate ownership structure of firms listed in the UAE financial markets have a significant influence on financial performance?

This dissertation contributes to the literature by providing a comprehensive review and tests of the UAE's corporate governance regulations, enforcement, and actual practices; it also tests their effectiveness in promoting corporate discipline and efficiency along with financial performance. The empirical tests in this research provide a clear picture of areas in need of improvement in the regulation and implementation of corporate governance mechanisms in the UAE. Another contribution of this work to the corporate governance literature is solid evidence on the generalizability, applicability, and robustness of corporate governance theories in different environmental and regulatory settings.

The dissertation is unique in many respects: it is the first comprehensive work to conduct such all-encompassing tests of corporate governance hypotheses with UAE firms. It utilizes a unique database that was assembled specifically for this thesis, where data had to be manually gathered and cross-checked through various domestic and international sources. This work tests the applicability of corporate governance theory in the specific UAE setting. Furthermore, it is the first study that separates the impacts of sovereign wealth funds and of government agencies as alternatives for state ownership.

This dissertation finds the following stylized facts:

- Board size is not a significant determinant of firm performance in the UAE, most likely because board chairs are usually entrenched.
- Board independence adds value by positively affecting firm performance, a signal that independent board members serve the goals of the firm in the absence of self-interests.
- CEO–board chair duality does not significantly explain firm performance.

- The presence of women on the board increases firm performance, indicating that gender diversity adds value in terms of sound policies and practices.
- Ownership concentration is highly significant, regardless of its proxy, strongly indicating that large ownership shares are associated with better corporate discipline and performance than fragmented firms are.
- The role of foreign ownership in corporate discipline is nonsignificant in the UAE due to limited foreign ownership imposed by law.
- State ownership has a negative effect on corporate financial performance, which gives rise to the argument that governments are more interested in citizens' social welfare than in corporate profitability and competitiveness.
- Family ownership plays a moderately positive role, given that families prefer to keep their wealth in large private firms and consequently do not own large stakes in public UAE firms.
- Cross-ownership has a weak negative effect on firm performance, which confirms prior studies' findings.

The results are robust to different measures of ownership concentration and to two forms of state ownership. They are also robust to further firm characteristics such as size, age, and leverage. The findings hold for fixed and random effects and for both financial and non-financial firms. Using the return on assets and the return on equity as measures of financial performance does not produce any significant results, an issue that needs further investigation in future research. A limitation to this work is also the likelihood of a regime change in the first few years of applying new corporate governance regulations, to the point where firms are more accustomed to implementing the earlier regulatory requirements.

This research highlights major shortcomings in corporate governance implementation in publicly listed firms in the UAE stock markets. It provides a good foundation for further research to develop policies tailored to the context of UAE markets and suitable mechanisms for the adoption of such policies and regulations. This dissertation's findings are anticipated to be of great importance to regulators and policy makers in the UAE to help understand compliance with corporate governance regulations among firms listed in the UAE markets. This study is mainly relevant to the UAE but its findings can also be generalized to the GCC and MENA countries, given that they tend to have similar economic, social, and political environments.

The dissertation is organized as follows: Chapter 2 reviews the literature and provides an overview of the theoretical framework of agency theory, international corporate governance structure, and international empirical evidence in the GCC countries and in the UAE. Chapter 3 introduces the regulatory framework in the UAE, along with a SWOT analysis of corporate governance mechanisms in the country. Chapter 4 develops the hypotheses, followed by a description of the data, methodology, and empirical model, as well as a comprehensive analysis of the results. Chapter 5 concludes and provides recommendations, policy implications, and potential avenues of future research.

Chapter 2: Literature Review

2.1 Theoretical Framework

The theoretical framework for corporate governance in companies was instituted in developed economies because of the agency problem that resulted from the separation of ownership and management. Of the main agency doctrines is the issue of the discrepancy in interests between principals and agents; the asymmetry of interests between company shareholders and managers is at the core of the agency question. The global development of corporate governance research was also motivated by financial crises and corporate scandals, especially the Enron scandal in the United States, and then the global financial crisis, which once again put corporate governance practices, especially in financial institutions, in the spotlight (Jensen and Meckling, 1976).

Economic theory on the agency dilemma focuses on the conflicts that potentially arise between firm managers and shareholders. The founding fathers of agency theory (Fama, 1980; Jensen and Meckling, 1976; Fama and Jensen, 1983; and Jensen, 1986) introduce and explain the theory of the firm, managerial behaviour, the separation between ownership and control, agency costs, and ownership structure, all of which establish the basis for corporate governance theory and practice. The UAE Commercial Companies Law Number 2 of 2015 gives certain types of companies a juristic personality independent of its owners. Jensen and Meckling (1976) define the organization as an artificial construct under the law, which allows certain organizations to be treated as individuals. That entails a nexus of contracting relationships between different stakeholders, mainly stockholders, corporate managers, and debt holders. For example, corporate managers' contracts define the

rights of the agents of an organization and their performance assessment. The agents are involved in the management of the organization bonded by a contract structure that limits the risks assumed by the payoff in the form of incentive plans or fixed salaries. In these contracts, agents should grant resources that would satisfy shareholders' interests or those of residual claimants (Jensen, 1986).

Jensen and Meckling (1976) categorize agency costs into three distinct groups: first, monitoring expenditures, incurred by the principal, to help constrain agents from diverging from the owner's interests. Such divergence can be mitigated by providing agents appropriate incentives and allocating resources such as monitoring costs to oversee their activities. These costs involve the establishment of systems and processes that produce reports on management decisions and actions, such as audits, compensation contracts, assessments, and performance examinations. The second group of agency costs pertains to the establishment of a system in which the agents can demonstrate that their actions are in the best interests of the shareholders. Such a structure is meant to pay the agent to make sure that no harmful decisions are undertaken by the firm and, if such decisions take place, that the principal is compensated. Finally, the third group covers residual costs, which arise from conflicts of interest between managers and shareholders, whose interests are unlikely to be fully aligned. Residual loss is the reduction in the welfare of the principal – the shareholders – resulting from the divergence between the agents' decisions and those of the owner to maximize his/her own welfare. The theoretical literature stipulates that the alignment of these parties' interests is challenging, since managers are particularly interested in enhancing their own interests at the expense of the shareholders. Agency theory suggests that the interests of shareholders and

management can be aligned through contractual arrangements, especially through management compensation.

Management compensation relationships in the banking sector have become a controversial issue, especially since the financial crisis in 2008, which revealed concerns about high-risk decisions at least partly driven by management compensation. Recent years have witnessed the hiring and firing of many top executives in leading international companies, as corrective action for managers who manipulated incentive measures, who drove companies into debt, or whose large-scale projects could not be delivered in order to meet other targets to benefit their personal wealth.

Jensen's (1986) theory of the agency costs of free cash flow[5] postulates that firms with large amounts of free cash flow provide management an incentive to invest such cash in value-destroying projects. Conflicts of interest between shareholders and managers over payout policies are especially severe when the organization generates substantial free cash flow. "The problem is how to motivate managers to disgorge the cash rather than investing it at below the cost of capital or wasting it on organization inefficiencies" (Jensen, 1986). The theory explains 1) the benefits of debt in reducing agency costs of free cash flows; 2) how debt can substitute for dividends; 3) why 'diversification' programmes are more likely to generate losses than takeovers or expansion in the same line of business or liquidation-motivated takeovers; 4) why the factors generating takeover activity in

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[5] Free cash flow is cash flow in excess of that required to fund all projects that have a positive net present value when discounted at the relevant cost of capital.

such diverse activities as broadcasting and tobacco are similar to those in oil, and 5) why bidders and some targets tend to perform abnormally well prior to a takeover.

Charles & Thomas, (1992) state that stakeholders, including employees, suppliers, and the general public, are considered groups of constituents who have a legitimate claim in the firm due to their roles and corresponding relationships with the company. While stakeholder theory has only very recently been recognized, the beginnings of the environmental, social, and governance movement (e.g. the Standard & Poor's/Hawkamah Environmental, Social and Governance Index) in the GCC region demonstrate that companies increasingly consider that reporting on their social and environmental footprint is important to communicate to their stakeholders. Some regulators, notably the Omani securities regulator, have gone so far as to mandate specific corporate social responsibility reporting in company annual reports.

On the other hand, controversial compensation arrangements have not been found to be a major issue in the United Arab Emirates (UAE) or the Gulf Cooperation Council (GCC) countries more generally, largely because misalignment in interests between management and shareholders is less prevalent due to the concentrated ownership structure of GCC firms. In fact, a stakeholder theory of the firm appears to be well suited to the GCC corporate environment. The stakeholder theory of the firm brings, indeed, further detail and complexity to the picture by suggesting that management must address not only shareholders, but also stakeholders, a wider group of parties that interact with or that are impacted by the firm's policies.

2.2 International Corporate Governance Practice

International institutions such as the Organisation for Economic Co-operation and Development (OECD) and leading international institutions in corporate governance such as the United Kingdom's Cadbury Committee[6] are benchmarks for international best practice. The OECD's main principles are summarized in Box 1. These principles provide the framework for corporate governance recommendations around the world, and more particularily in the GCC countries and the UAE. Although the recommendations are self-explanatory, they tackle a comprehensive set of issues that serve as an integrated framework for the governance of any institution, including commercial and public enterprises. The recommendations cover board integrity, composition, committees, remuneration, alignment of interests, strategy, and monitoring decisions.

[6] The Cadbury Report, originally published in December 1992, is issued by the Committee on the Financial Aspects of Corporate Governance, also known as the Cadbury Committee. It provides recommendations on the arrangement of company boards and accounting systems to mitigate corporate governance risks and failures. These recommendations have been used to varying degrees to establish other corporate governance codes, such as those of the OECD, the European Union, the United States, and the World Bank.

Box 1: OECD principles: key recommendations on board structure

Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders. Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly. The board should apply high ethical standards. It should take into account the interests of stakeholders.
The board should fulfil certain key functions, including:

1. Reviewing and guiding corporate strategy, major plans of action, risk management policies and procedures, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
2. Monitoring the effectiveness of the company's governance practices and making changes as needed.
3. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
4. Aligning key executive and board remuneration with the longer term interests of the company and its shareholders.
5. Ensuring a formal and transparent board nomination and election process.
6. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
7. Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
8. Overseeing the process of disclosure and communications.

The board should be able to exercise objective independent judgment on corporate affairs. Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgment to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are ensuring the integrity of financial and non-financial reporting, the review of related party transactions, nomination of board members and key executives, and board remuneration.
Boards should consider setting up specialized committees to support the full board in performing its functions, particularly in respect to audit, and, depending upon the company's size and risk profile, also in respect to risk management and remuneration. When committees of the board are established, their mandate, composition and working procedures should be well defined and disclosed by the board.
Board members should be able to commit themselves effectively to their responsibilities. Boards should regularly carry out evaluations to appraise their performance and assess whether they possess the right mix of background and competences. In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information.
When employee representation on the board is mandated, mechanisms should be developed to facilitate access to information and training for employee representatives, so that this representation is exercised effectively and best contributes to the enhancement of board skills, information and independence.

Source: OECD (2015)

The Cadbury Committee, has made the following recommendations to overcome the board independence issue: the chair of the board should be independent and, to formalize the selection of non-executive directors, functioning committees such as the audit and remuneration committees should consist mainly of non-executive directors. The Cadbury Report recommendations on corporate governance use the principle of comply or explain.

The Cadbury Code of Best Practices makes 19 recommendations (See Box 2 below). The recommendations pertain to guidelines relating to the board of directors, non-executive directors, and executive directors and on reporting and control.

Box 2: The Cadbury report's 19 recommendations for sound corporate governance practices

The following recommendations relate to the board of directors: • The Board should meet regularly, retain full and effective control over the company and monitor the executive management. • There should be a clearly accepted division of responsibilities at the head of a company, which will ensure balance of power and authority, such that no individual has unfettered powers of decision. In companies where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board, with a recognized senior member. • The board should include non-executive directors of sufficient calibre and number for their views to carry significant weight in the board's decisions. • The board should have a formal schedule of matters specifically reserved to it for decisions to ensure that the direction and control of the company is firmly in its hands. • There should be an agreed procedure for directors in the furtherance of their duties to take independent professional advice if necessary, at the company's expense. • All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of company secretary should be a matter for the board as a whole.
The following recommendations relate to non-executive directors: • Non-executive directors should bring independent judgment to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct. • The majority should be independent of the management and free from any business or other relationship that could materially interfere with the exercise of their independent judgment, apart from their fees and shareholding. Their fees should reflect the time that they commit to the company. • Non-executive directors should be appointed for specified terms and reappointment should not be automatic. • Non-executive directors should be selected through a formal process and both this process and their appointment should be a matter for the Board as a whole. The following recommendations relate to executive directors: • Directors' service contracts should not exceed three years without shareholders' approval. • There should be full and clear disclosure of their total emoluments and those of the chairman including pension contributions and stock options. Separate figures should be given for salary and performance-related elements and the basis on which performance is measured should be explained. • Executive directors' pay should be subject to the recommendations of a remuneration committee made up wholly or mainly of non-executive directors. Regarding reporting and controls, the Cadbury Code of Best Practices stipulates the following: • It is the board's duty to present a balanced and understandable assessment of the company's position.

Source: Cadbury (1992)

Other corporate governance codes are issued by national regulators and while the main themes of such codes are usually derived from the OECD principles and the Cadbury Report recommendations, further governance requirements are usually distinctive of the country of issuance in terms of its social and economic uniqueness. As an example, such effect is apparent from the comparison of the UAE corporate governance regimes to the OECD and Cadbury recommendation.

2.3 Corporate Governance and Firm Performance: Empirical Evidence

2.3.1 International Evidence

Jensen and Meckling (1976) suggest that firm performance influences executive compensation. Studies in the 1990s have explored equity-based compensation and firm's performance. Mehran (1995) provides evidence of a positive relation between the return on assets (ROA) and the total compensation of the chief executive officer (CEO), whose incentives have a measurable impact on corporate efficiency. In addition, Carpenter and Sanders (2002) and Sloan (1993), among others, find strong linkages between accounting-based measures of performance, such as the return on assets (ROA) or return on equity (ROE), and executive compensation. Moreover, in a study on CEO compensation for a sample of US banks, Belkhir and Chazi (2010) conclude that managers make investment decisions in accordance with their own risk-taking incentives.

The evolution of corporate governance research in developed and emerging markets has been profoundly influenced by the new direction in the literature pioneered by La Porta et al. (1997, 1998), which identifies key features of corporate governance systems in different countries, and by grouping countries with similar systems: Anglo-American, Continental European, and Asian models of corporate

governance have thus been suggested. This development has resulted in greater emphasis on convergence in governance systems in common law countries like the UK and civil law like most MENA countries, as opposed to a focus on the level of development of financial and capital markets.

Al-Bassam et al. (2018) state that, over the past decades, the adoption of a corporate governance code by increasing numbers of developing countries has generated significant research interest in the actual extent of and factors leading to or impeding firm-level implementation and its consequences at the macro or national level (Aguilera & Cuervo-Cazurra, 2009; Andreasson, 2011; Mahadeo & Soobaroyen, 2016; Salterio et al., 2013; Yoshikawa & Rasheed, 2009). While the corporate governance literature has rapidly developed across the globe, interest in governance in emerging markets has been more recent and continues to increase. For example, Haat, Abdul Rahman, and Mahenthiran (2008), Haniffa and Cooke (2002), Hussainey and Al-Nodel (2008), among others, document that corporate governance practices are generally weak in emerging economies. Corporate governance research in emerging markets focuses on a few specific markets in Asia and Latin America – distinct markets such as Brazil, Chile, Singapore, and Malaysia – since these have witnessed rapid economic development coupled with an evolution in corporate governance regulations led by the regulatory authorities and significant changes in practice by corporations.

Corporate governance research in the Middle East and North Africa (MENA) has been evolving and has focused on disclosure practices, since this is one area where researchers can easily access public information. Other issues, such as the impact of ownership structure on firm performance, have also been covered. There is

therefore great value in further empirical studies on governance, especially in listed companies, on which more publicly accessible information is available. Further research is particularly important when one considers that, fundamentally, the MENA region has many corporate governance challenges that would benefit from investigation from a comparative perspective. In particular, ownership concentrated in the hands of the state and family businesses is common throughout the entire Arab world, regardless of the level of market development or type of economic structure (oil importing or oil exporting). This setting stands in stark contrast to agency theory, which predicts that the alignment of the interests of shareholders and management is the fundamental problem in corporate governance.

While there are clear similarities in terms of the ownership structures of MENA companies, their governance frameworks have developed at different speeds, which is reflected in the literature. These differences and especially those in listed companies' disclosure requirements greatly complicate the comparative research. The literature review found few studies that empirically compare the corporate governance practices of MENA corporations, and found that even fewer works to provide evidence to support a positive relation between firm performance and management compensation. Since firm performance has been shown to be sensitive to the type of measures used for performance evaluation (Canarella & Nourayi, 2008), these studies generally focus on the common characteristics of MENA corporations, notably their concentrated ownership. Piesse, Strange, and Toonsi (2012) even go so far as to suggest that the high levels of concentrated ownership and control, and the low levels of disclosure and transparency, clearly differentiate the corporate governance system in the region from that in Anglo-American countries while the importance of state and family shareholders reflects

characteristics of organization and control found in many developing countries, predominantly those in Asia.

However, it is still premature to speak of a unique MENA model of corporate governance. Omran et al. (2008) note that the corporate governance systems in MENA countries share many features with those in other developing economies, notably the underdeveloped nature of the financial markets (and hence limited access to external financing) and the preponderance of family-owned firms. The authors point out that the relation between legal origins and financial arrangements in Arab countries merely reflects the influence of a third exogenous variable, which is the role of the state or the nature of the political system and national governance.

Claessens and Yurtoglu (2013) review research on corporate governance, with a special focus on emerging markets. They find that better corporate governance benefits firms through greater access to external financing, lower costs of capital, better performance, and the more favourable treatment of all stakeholders. Their evidence also shows that voluntary and market corporate governance mechanisms have less effect when a country's governance system is weak. Less evidence is available, however, on the direct links between corporate governance and social and environmental performance. The authors conclude their review by identifying issues requiring further study, such as the special corporate governance issues of banks and family- and state-owned firms and the nature and determinants of public and private enforcement.

Borisova et al. (2012) state that direct government ownership in publicly traded corporations has increased dramatically since 2008 due to government interventions to rescue systemically important financial institutions in the European

Union. They find that government ownership is associated with lower governance quality. They further show that, although government intervention is negatively related to governance quality in civil law countries, it is positively related to governance quality in common law countries. Finally, they find that the preferential voting rights of golden shares are especially damaging to governance quality.

Ciftci et al. (2019) study the relation between context, internal corporate governance, and firm performance in Turkey as an example of family capitalism. They find that greater ownership concentration, often in the hands of families, leads to better firm performance, since concentrated ownership means that the controlling families bear more of the risks of poor performance. The authors also find that larger boards and foreign ownership stakes have positive effects on performance. They note that increases in cross-ownership do not influence market performance but are negatively associated with accounting performance. Conversely, a higher proportion of family members on the board has no discernible effect on performance. The authors also document further insights on the relation between the type of institutions encountered in many emerging markets, internal corporate governance configurations, and firm performance.

Detthamrong, Chancharat, and Vithessonthi (2017) examine the relation between corporate governance and firm performance in Thailand and find that corporate governance is not associated with financial leverage or firm performance but leverage has a positive effect on firm performance. Corporate governance is observed to have an influence, however, when the firms are split into subsamples of small and large firms. Audit committee size has a negative effect on performance among large firms, whereas the effect of audit reputation on performance is only

evident for small firms. Furthermore, financial leverage mediates the effect of the audit committee's size on performance for large firms.

Ducassy and Guyot (2017) find that smaller shareholders exercise additional effective monitoring but principal/principal agency costs increase in the presence of a controlling owner. The authors also show that shareholder homogeneity reduces agency conflicts. They document that the usual agency theory conclusions are debatable when the legal framework offers little protection to minority shareholders and when the ownership structure is complex and heterogeneous.

Haider et al. (2018) show that government ownership reduces firms' financial constraints and enhances their performance. Furthermore, they find that the associations between government ownership and financial constraint and between financial constraint and corporate performance are less pronounced for firms operating in countries with lower levels of corruption.

Li et al. (2015) exploit two sequential exogenous regulatory reforms in China (i.e. regarding board independence in 2001 and share restructuring in 2005) to study the incremental effect of board independence on firm performance with a decline in ownership concentration. They examine the period from 2003 to 2008, when the share of independent directors was relatively stable but ownership concentration was declining significantly among Chinese publicly listed firms. They find that the impact of board independence on firm performance increases as ownership concentration declines but this effect varies by type of ownership. Privately controlled firms exhibit statistically and economically significant positive board effectiveness, whereas state-controlled firms show nonsignificant effects. The results are robust to endogeneity checks and are stronger with a market-based performance

measure (Tobin’s Q) compared to an accounting-based measure (ROA). The results support the notion that high ownership concentration moderates board effectiveness but the effect depends on the ownership type and the country’s institutional environment.

Nakpodia and Adegbite (2018) use a qualitative methodology (interviews) to examine the relation between the effectiveness of corporate governance mechanisms and elitist interventions. They identify three elitist groups – political, cultural, and religious – and investigate how these shape the legitimacy and effectiveness of the institutional drivers of corporate governance in Nigeria. The authors contend that, in the presence of an institutional void, elites can invent, circumvent, and corrupt institutions.

Paniagua et al. (2018) examine the traditional question of how corporate governance and ownership structure relate to the financial performance of firms. They make two main contributions: first, their use of multiple empirical techniques offers a broader approach to the empirical analysis of financial performance and, second, their study enhances the understanding of the roles of corporate governance and ownership in the financial performance of firms.

Vu et al. (2018) empirically analyse the relation between board ownership structure and financial performance for firms listed on the Vietnamese stock exchanges. Their results indicate that the number of members on the board of directors, the ownership concentration of the board, and CEO ownership positively influence the ROA but have no impact on the ROE.

2.3.2 GCC Evidence

As had been illustrated earlier, most MENA countries follow the civil law approach to business and regulations, hence, the applicability of the Anglo-Saxon corporate governance literature on the GCC countries could be reconsidered. The Anglo-American model emphasizes the separation of ownership and control and dominates in common law countries such as the United States, the United Kingdom, Australia, and Canada. In contrast, the Continental European model predominates in civil law countries such as France, Italy, and Austria and other European jurisdictions, where the market for corporate control is much weaker and there is greater ownership by large shareholders and institutional blockholders (Piesse, Strange, & Toonsi, 2012). This latter situation more closely resembles that of GCC countries, where ownership continues to be dominated by blockholders such as the government and family shareholders. Two types of owners are associated with specific financial and governance structure characteristics. For instance, in comparison to widely dispersed firms, family companies are associated with the greater use of internal markets (e.g. third and fourth markets in the financial literature). Transaction costs among family members and closely affiliated corporations are lower because they involve less information asymmetry than transactions between unaffiliated parties; hence, capital can be allocated among firms within the group more efficiently, especially when external finance is scarce, as in many emerging markets.

Similarly, state control is an important feature of GCC equity markets and an echo of these countries' economic history. The state ownership of firms is traditionally viewed as a way to correct market failures (Atkinson & Stiglitz, 1980).

In the 1970s to 1990s, state ownership was viewed with a degree of suspicion and governments such as Egypt's, with a large state-owned enterprise sector, were often pressured to privatize their shareholdings, since this was thought to improve corporate efficiency and reduce nepotism and cronyism. Boycko et al. (1996) argue that politicians cause government-owned firms to employ excess labour, while Krueger (1990) suggests that such firms can be pressured into hiring politically connected individuals rather than those best qualified.

The ownership structure of GCC companies calls into question the relevance of agency theory, which has emerged as a defining framework in the Western corporate governance literature. Conducting the research on the MENA region including the GCC, very little research on the practices of corporate governance and firm performance was found. As mentioned, few comparative studies explore how different regulators and companies have introduced and adopted various corporate governance principles. It is one of the findings of this work that such scarcity can be attributed to a lack of reliable comparable data on listed companies. For instance, different securities regulators in the GCC countries have different governance reporting requirements for listed companies; however, all GCC countries follow International Financial Reporting Standards for financial disclosures.

Although, in recent years, GCC country regulators have been in significant discussions on the harmonization of standards, including those on corporate governance as pursued by the GCC Secretariat, little progress has been made on regulatory convergence. Therefore, very few GCC companies are cross-listed to benefit from the liquidity of larger exchanges in the region, such as those of Saudi Arabia or the UAE. Although some regulatory requirements, in terms of board

independence, remarkably, have tended to converge, this is not likely the result of regulatory efforts at policy coordination but, instead, the result of global convergence in certain corporate governance requirements, adopted to comply with international standards.

The World Bank and IMF Reports on the Observance of Standards and Codes and the results of the MENA-OECD Working Group on Corporate Governance (Amico, 2014) represent the most in-depth research on the region (including the GCC countries). The International Finance Corporation has also widely published on corporate governance in the MENA region, although this work focuses on case studies and is largely based on surveys. Other studies that provide somewhat detailed overviews of national corporate governance practices in the GCC and neighbouring countries include those of Chahine (2007), who considers the monitoring role of foreign banks and corporate shareholders on GCC commercial banks, and Chahine and Tohmé (2009), who examine the impact of strategic shareholders (i.e. corporate and other industry-related investors) on initial public offering underpricing in the MENA region, including the GCC block.

However, it is observed that corporate governance practices are adopted by listed companies largely due to regulatory pressure, as opposed to adopting such practices to differentiate themselves and attract investments, improve their risk management, or improve their internal decision making process. Al-Bassam et al. (2018) examine precisely these questions in the context of Saudi Arabia. They investigate whether and to what extent publicly listed corporations voluntarily comply with and make disclosures according to recommended corporate governance practices and they examine whether the cross-sectional differences observed in such

disclosures can be explained by ownership and board mechanisms. Their results suggest that corporations with larger boards, a Big 4 auditor, greater government ownership, a corporate governance committee, or higher levels of institutional ownership disclose considerably more than other corporations. By contrast, the researchers find that an increase in block ownership significantly reduces corporate governance disclosure.

Ben Zeineb and Mensi (2018) use Sharia supervisory board size, CEO duality, and ownership structure as corporate governance variables to measure efficiency and risk using data envelopment analysis/stochastic frontier analysis and Z-scores, respectively. They apply seemingly unrelated regressions to a sample of 56 GCC Islamic banks from 2004 to 2013 (560 bank–year observations). The results indicate that the implementation of rigorous corporate governance structures is correlated with higher efficiency levels, greater risk, and higher likelihood of survival in a competitive environment and during financial crises. Abdallah and Ismail (2017) study highly concentrated ownership in GCC countries and find heterogeneity in governance quality across exchanges. They also find that the positive relation between governance quality and firm performance is stronger at low levels of ownership concentration and is an increasing function of dispersed ownership that is maximized when the government or local corporations are the firm's major shareholders.

Al-Hadi et al. (2016) investigate the joint effect of political connections in the form of a royal family member on the board and corporate governance on the market risk disclosures of GCC financial firms. They find that better corporate governance

improves transparency and can be used as an effective tool in curbing the potentially adverse impact of politically connected board members on firm transparency.

Al-Malkawi et al. (2014) examine corporate governance practices in emerging markets with special reference to firms listed in GCC oil-rich countries. The authors develop an empirical unweighted corporate governance index for non-financial firms. This index identifies 30 internal governance attributes that are summarized within three categories of all the selected firms to form the best corporate governance practices in the region. The results demonstrate that GCC companies adhere to 69% of the attributes addressed in the corporate governance index. The results also show that the firms listed in the UAE stock markets exhibit the best adherence to the corporate governance attributes examined in the study, followed by Oman, Saudi Arabia, Qatar, and Kuwait.

Eulaiwi et al. (2016) investigate the impact of board gender diversity on corporate risk reporting among GCC financial firms. They find that the presence of female directors on the boards of financial institutions suppresses the positive association between corporate governance and market risk disclosures. These findings suggest that the culture and conservative nature of GCC societies persist in the GCC business environment.

Arouri et al. (2014) examine the effect of ownership structure and board composition on bank performance in GCC countries. Using multivariate regression analysis, they find that the extent of family ownership, foreign ownership, and institutional ownership is significantly and positively associated with bank performance; however, government ownership does not have a significant effect on performance. Other governance variables, such as CEO duality and board size,

appear to have a nonsignificant impact on performance. The authors also suggest that, unlike in Western countries, corporate boards in GCC countries might not be an effective corporate governance mechanism.

Chazi et al. (2018) study the attributes of the corporate governance mechanisms in Islamic finance institutions and their effect on performance and risk taking behaviour in the GCC region around the global financial crisis, which represents a natural stress test. Their study assesses the impact of the corporate governance characteristics of ownership structure/concentration; board size, composition, and independence; and the effectiveness of the legal system and investor protection of the country, using a wide array of bank performance indicators, including profitability, efficiency, asset quality, and risk. Using both univariate and multivariate tests to control for many potentially confounding effects, the authors show that, during the global financial crisis, the ROA and ratio of operating income to total assets were significantly higher among Islamic banks compared to non-Islamic banks in the GCC region, by more than 1% and 2.5%, respectively. Islamic banks also exhibited more prudent risk management behaviour and higher solvency than non-Islamic banks. Moreover, consistent with the notion of the importance of corporate governance, asset productivity at Islamic banks increases significantly with family and foreign ownership and the effectiveness of the legal system and investor protection and decreases with board size and the number of insiders. Furthermore, risk taking behaviour at Islamic banks decreases with government and family ownership and the level of investor protection in the home country.

Eulaiwi et al. (2016) investigate the association between outside board directorships and family ownership concentration on a sample of 1,091 firm–year observations of non-financial firms listed on GCC exchanges. They find a positive association between family ownership and the number of outside directorships held by board members. This finding is consistent with the notion that family ownership reduces a board’s monitoring capabilities.

Pillai and Al Malkawi (2018) examine the impact of internal mechanisms of corporate governance on firm performance in non-financial companies listed on the stock exchanges of GCC countries. The empirical results show that governance variables such as government shareholdings, audit type, board size, corporate social responsibility, and leverage significantly affect firm performance in the majority of the GCC countries. These results have certain regulatory and managerial implications, all of which call for more concerted efforts in strategically implementing prudent governance solutions to future-proof GCC business.

Zeitun (2014) investigates the effect of ownership structure and concentration on firm performance in GCC countries. They find that ownership structure and government ownership affect firm performance, whereas the influence of foreign and institutional ownership is found to be nonsignificant. Their study also shows that ownership concentration affects firm performance positively and significantly and the firm’s capital structure has no effect on performance. Furthermore, they conclude that age and size have a positive and significant impact on corporate performance.

2.3.3 UAE Evidence

The development of capital markets goes hand in hand with the required improvements related to corporate governance, considering that listed firms' governance tends to evolve much more rapidly than privately held firms' governance. As explored in this dissertation, however, disclosure practices, even in listed firms, remain weak, especially in terms of non-financial disclosure and in countries with voluntary governance recommendations. The protection of shareholders and stakeholders is another priority to address, as evidenced by the Doing Business rankings, which assign a regional average of 97 out of 185 economies, compared against the OECD average of 61.

There is a desperate need to fill the gap in knowledge and empirical research in corporate governance in the UAE markets, especially the question of its impact on firm financial performance and firm risk. Considering the challenging and complex political and economic framework of the UAE businesses environment, it is also important to study the adoption of good governance rules and regulations in the UAE and their potential impact on corporate performance. This dissertation carries out this task by focusing on a number of key corporate governance mechanisms that are expressed in terms of ownership patterns, board composition, and board independence, among others, as outlined in the methodology section below.

The literature on UAE corporate governance is scarce compared to the literature on developed countries such as the United Kingdom and the United States. These advanced Western capital markets differ significantly from the UAE market in terms of economic growth, policy makers, market control, management practices, business environment, and income levels. As elsewhere in the region, what little

available corporate governance work exists tends to be heavily focused on disclosure, due to the meagre availability of detailed information to researchers. These studies generally demonstrate steady progress in terms of corporate governance practices in the UAE ever since the introduction of the first governance decision in 2009 and especially since the decision's amendment in 2016. Aljifri, Alzarouni, Ng, and Tahir (2014) formulate several hypotheses to examine the relation between a number of explanatory variables (i.e. industry type, listing status, ROE, liquidity, market capitalization, foreign ownership, number of non-executive directors, and existence of an audit committee) and the extent of disclosure in corporate annual reports. Their results show that listing status, industry type, and firm size are significantly associated with the level of disclosure.

Mubarak (2012) examines the extent to which companies listed in exchanges in the UAE comply with the national corporate governance decision, compared to those in the Egyptian exchange, and find significantly greater compliance in the UAE. They also find limited compliance with corporate governance rules by only a few firms in the UAE. They document that compliance in the UAE is more prevalent in the banking and financial sectors, which can be attributed to central bank regulations (Abdel Al & Bose, 2015).

Majumdar and Varadarajan (2015) conduct an empirical study on UAE firms and find that Tobin's Q of non-family firms is higher than that of family firms, which suggests that the market perceives non-family firms to perform better than family firms. However, the authors' evidence based on financial indicators (e.g. ROA and ROE) presents a positive image and a promising future for UAE family firms.

There is a need to better understand the impact of family ownership on corporate performance. Family businesses in the UAE represent a key source of employment and are a major driver of women's involvement in the private sector labour force and a dynamic engine for national wealth creation and economic development. Further, the study of La Porta et al. (1999) covers 27 countries and finds that 68% of sample companies were family owned. In comparison to firms with widely dispersed ownership, family firms can allocate capital more efficiently, especially when external finance is scarce, as is the case in many emerging markets (Almeida & Wolfenzon, 2006; Khanna & Palepu, 2000; Miller et al., 2007). This is a key reason why family-owned firms might be more efficient than their competitors but also highlights the risks of a concentrated ownership structure, such as the abuse of minority shareholders.

Very few studies address the impact of state ownership on governance and firm performance and none within the context of the UAE. Omran (2007) examines the financial and operating performance of newly privatized Egyptian banks and tests whether such performance differs across firms according to their new ownership structure. Since most studies do not distinguish between ownership types, Omran (2007) provides new insight into the impact of post-privatization ownership structure on firm performance and documents significant increases in profitability, operating efficiency, capital expenditures, and dividends.

In terms of sectorial orientation, despite the fact that the corporate governance code for banks is not extremely detailed, bank governance practices in the UAE are generally more developed compared to those of companies in other sectors. In a survey of UAE bank board members, Al-Tamimi and Charif (2002) find

that board composition and meetings are considered effective and productive, more members than not are satisfied with the chairperson's leadership skills and performance, and boards members are aware of the requirements of corporate governance practices. Furthermore, the results indicate a significant positive relation between the role of UAE bank board members and their educational background, as well as experience, compensation, and corporate governance awareness.

Chapter 3: Corporate Governance Regulatory Framework

3.1 Introduction

3.1.1 GCC Capital Markets

This chapter provides the reader with a broader perspective on the United Arab Emirates (UAE) ecosystem and its position in the regional financial system. This part introduces the financial markets and the corporations listed on exchanges and explains the relation between the development of corporate governance with that of the financial system and respective countries' plans to develop their markets.

The development of capital markets is a key governmental objective and a number of governments in the Middle East and North Africa (MENA) region are seeking to establish themselves as financial centres. The development of MENA stock exchanges has been relatively rapid and the region is currently home to 18 stock exchanges. Yemen is the only jurisdiction in the region without a stock exchange and the UAE is the only country with two stock exchanges. Other countries, such as Lebanon, are currently considering introducing competition in the stock exchange industry. Market capitalization in the region varies greatly, with a significant difference between Saudi Arabia's Tadawul, the largest exchange in the region, and the Algerian and Lebanese markets, which are by far the smallest. Also, a large proportion of firms listed in the UAE and in the region are banks and financial sector firms. Exchanges have not yet necessarily fulfilled their potential in terms of financing the growth of private sector firms, especially considering that family groups continue to be reluctant to list and that the privatization momentum in the region has been waning.

Equity markets in the Gulf Cooperation Council (GCC) region were relatively late to develop and the banking sector has, historically, been the source of most of corporate financing in the region. However, banks' ability to satisfy the demand for corporate borrowing was hampered by their relatively risk-averse profile and the general opaqueness of corporate borrowers. The disclosure-averse culture in the region, where controlling shareholders have often been reluctant to divulge the operational or financial details of their business, has contributed to the general lack of transparency in the corporate sector. The ongoing development of capital markets, however, has created requirements for greater transparency, thus slowly but surely pushing disclosure and broader governance issues onto the policy agenda.

The UAE's capital market has grown significantly since its inception and consists of three main exchanges: the Abu Dhabi Exchange (ADX), the Dubai Financial Market (DFM), and NASDAQ Dubai. The ADX was established 15 November 2000 by Abu Dhabi Emirate Law No. (3) of 2000, whose provisions define the market as an autonomous legal entity with independent finance and management and grant it the necessary supervisory and executive powers to exercise its functions. The ADX is a state-owned market, much like its GCC peers, and, as highlighted in Table 1, the fourth largest market in the region, following Saudi Arabia, Turkey, and Qatar, (World Federation of Exchanges, 2018). The DFM was established in the same year as the ADX. It was established as a public institution and an independent legal entity by virtue of Decree 14/2000 issued by the Ruler of Dubai. Five years later, in 2005, the Executive Council of Dubai decided to transform the DFM into a public shareholding company and 20% of the capital was offered through an initial public offering (IPO) in March 2007. Therefore, the DFM is the only privately owned demutualized exchange in the region. The ADX is

slightly larger in terms of both the number of listed companies and market capitalization, with 66 listed companies valued at USD 143 billion compared to the DFM's 64 listed companies valued at USD 101 billion. NASDAQ Dubai is a much smaller market than both the ADX or the DFM. Despite remaining a small market, NASDAQ Dubai has become a major exchange, as the third largest sukuk venue worldwide, with a total nominal value of USD 115 billion in reported capital as of the end of 2018. Although it is also a major exchange for other debt issues, it has succeeded in attracting only fewer than 20 companies in terms of equity listings. However, its rate of growth has been higher than those of other markets in the country.

In 2010, the DFM consolidated its operations with NASDAQ Dubai to provide investors with greater choices of asset classes and easier access to securities listed on the DFM and NASDAQ Dubai via a single investor number. Although the DFM owns the partially self-listed NASDAQ Dubai, both exchanges continue to be regulated separately, the DFM by the UAE Securities and Commodities Authority (SCA) and NASDAQ Dubai by the Dubai Financial Services Authority (DFSA).

3.1.2 Listing Process

Before listing, a company must be converted to a public joint stock company (PJSC)/Public shareholding company, and must apply to the SCA with a prospectus as per the provisions of Board decision number 3 of 2000 regarding transparency and disclosure. As per the Cabinet of Ministers Decision number 12 of 200 and the SCA board decision number 7 of 2002 on the listing of local and foreign companies respectively, following the SCA's approval, the issuer must submit a separate application to the ADX or the DFM, both of which have different listing

requirements, such as in terms of size. ADX issues require offer size of at least AED 20 million (more for foreign companies) and DFM issues require an even larger amount, AED 30 million (Table 1). The DFM requires all issuers' market capitalization to be at least USD 10 million, which is significantly lower. Although smaller growth companies can easily list on the NASDAQ Dubai, whose listing rules provide flexibility for small companies, this can be challenging for larger firms. A startup company can theoretically immediately go public and list on the DFM. In practice, however, few waivers are granted to allow an immediate listing. There have been a number of so-called greenfield listings, including Amanat Holdings PJSC, an investment company whose AED 1.375 billion IPO was nearly 10 times oversubscribed. The 2014 listings also included greenfield issuers, Marka PJSC and Dubai Parks and Resorts PJSC, which both performed more poorly than expected. ADNOC Distribution is a more recent greenfield listing.

Following the global financial crisis, listing activities in the UAE, as elsewhere in the region, slowed down, except in Saudi Arabia, where the recent introduction of the Nomu market targeting small and medium-sized enterprises resulted in healthy listing activity. The Turkish stock exchange, on the other hand, saw a considerable slowdown in both listing and trading activities following increased political instability and loss of investor confidence. These trends highlight the dynamic and volatile positioning of the region's markets.

Table 1: Listed companies and market capitalization in the MENA region

Stock exchange (SE)	Number of listed companies, 2015	Market capitalization (USD billions), 2015	Number of listed companies, 2018	Market capitalization (USD billions), 2018
Abu Dhabi SE	67	130	67	134
Amman SE	265	19	193	22
Bahrain SE	48	21	43	22
Beirut SE	29	7	11	9
Borsa Istanbul	309	205	377	205
Bourse d'Alger	3	1	3	1
Bourse de Casablanca	89	51	75	61
Bourse de Tunis	85	6	82	9
Damascus SE	24	1	24	1
Dubai Financial Market	60	85	63	101
Egyptian Exchange	268	50	250	42
Iraq SE	37	0.5	37	1
Kuwait SE	224	86	175	93
Muscat Securities Market	130	17	110	18
Palestine SE	49	1	49	1
Qatar Exchange	44	181	45	163
Saudi Arabia SE (Tadawul)	171	518	200	496

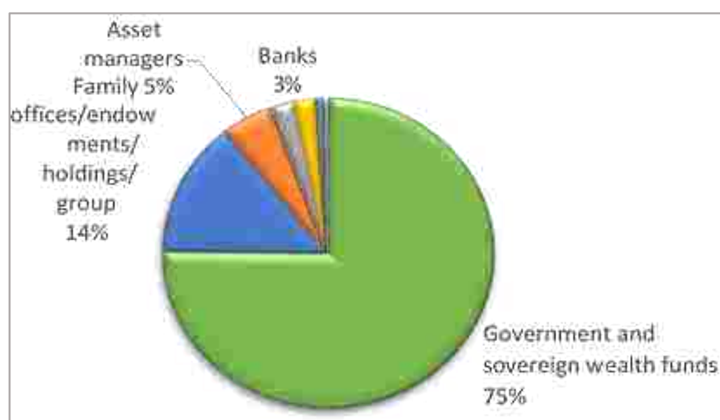
Source: World Federation of Stock Exchanges, 2015-2018 reports (WFE Communications Team, 2018)

The UAE and Saudi markets have grown impressively since early 2000. Both were significantly impacted by the volatility in GCC capital markets in 2006 but subsequently rebounded. Tadawul's market capitalization has continued to grow in recent years, bolstered by a few large IPOs, such as that of the National Commercial Bank. The UAE exchanges and securities regulators have tried to attract greater listings by lowering the percentage of company capital sold in a public offering to 30%; however, the volatility of the market due to the decline in oil prices has not been conducive to further listings.

In the UAE, close to 75% of all market capitalization is estimated to be in the hands of sovereign investors (Reuters, 2018). The UAE is home to multiple sizeable sovereign investors, including the largest, Abu Dhabi Investment Authority, as well as the Emirates Investment Authority and Dubai Investments. While retail investors are active in terms of overall trading activities, their role as owners is much less prominent. A similar situation prevails in other markets in the Gulf, such as in Saudi Arabia, where key institutional investors, such as the General Organization for Social Insurance and the Public Pension Agency, have significant ownership of the market. In Oman, the high level of ownership of listed companies by public pension funds can be seen as detrimental from the perspective of market turnover, but positive from the perspective of market stability.

Family owners account for approximately 15% of the market capitalization of both Saudi and UAE exchanges, while other sources of institutional capital are rather negligible at this stage (Reuters, 2018). This is because pension funds and the insurance sector, sizeable institutional investors globally, are not yet well developed in the region. Market activity continues to be dominated by retail investors, adversely

impacting market volatility. This is indeed a common concern in all GCC countries except for Bahrain, which is an older financial centre with a developed pension fund and mutual fund industry (Figure 1).



Source: Reuters (2018)

Figure 1: Institutional investors categorization

The UAE was upgraded to emerging market status in 2015, when it was judged to meet the criteria set forth by index providers such as Morgan Stanley Capital International (MSCI) and the Financial Times Stock Exchange (FTSE). This upgrade was followed by reallocations of capital by foreign institutional investors to the UAE, which is important, considering that domestic institutional capital is not very developed. Morocco lost its status as an emerging market and Egypt's position is not judged as being stable. MSCI has also announced the inclusion of Saudi Arabia index in the its Emerging Markets index starting June 2019, which is expected to lead to significant inflow of foreign institutional capital, since Tadawul accounts for approximately 3% of the capitalization of all emerging markets.

The legal and regulatory framework concerning GCC majority ownership and the ability of foreign owners to register companies in the UAE have undergone significant changes in the past five years. Other than financial free zones companies

which are exempt under the Commercial Companies law number 2 of 2015, The previous Emirati ownership limit of 51% was retained in the new Commercial Companies Law (CCL) and investments by GCC nationals are encouraged. Investors from outside the UAE or GCC are permitted to buy up to 49% of an individual company's shares, if the company has lifted its foreign ownership limits. A number of listed companies now allow a proportion of their stock to be held by foreign shareholders, up to 49%, short of a majority. Foreign investors no longer require pre-investment approval to purchase stocks of listed companies and the market is open to all shareholders wishing to purchase shares in listed companies that allow foreign shareholdings.

The DFM has been on the radar of foreign investors since its inception in 2000, due to its sizeable investment opportunities and easy access. A number of technological and product innovations have been introduced on the DFM and ADX, such as a delivery versus payment system that allows payments for securities at the time of delivery. The system stipulates a cash payment to be made prior to or upon delivery of the security. More recently, short selling was introduced and, in 2018, NASDAQ Dubai introduced futures on DFM and ADX equity indices. In collaboration with the listed companies, the exchanges have also implemented an eXtensible Business Reporting Language (XBRL) platform for the disclosure process, which is appreciated by foreign investors. Many countries with more advanced markets use XBRL to facilitate data reading for investors and other interested parties. Currently, XBRL is used by only a few advanced exchanges in the region, including those in the UAE, Qatar, and Saudi Arabia.

3.2 Regulatory Framework of Corporate Governance in the UAE

Research clearly demonstrates that well-governed companies are able to retain the best talent and attract greater investment, are much better equipped to deal with a volatile economic environment, and are more sustainable in the long term than companies that are not as well governed, (Detthamrong, et al. 2017). Good governance is essential in emerging markets to create an environment of trust for outside investors, especially when most companies are controlled by a single or a few shareholders and where the risks of shareholder abuse are perceived to be high. Before a discussion of developments in the UAE, it is worthwhile to briefly describe the corporate governance evolution and trends in the MENA region. Corporate governance frameworks for listed companies in the region have evolved significantly in the past 15 years. While some of the MENA stock exchanges are several decades old, the development of modern securities frameworks in most countries in the region dates back only a decade.

This research documents that the establishment of securities regulators across the region was followed by the introduction of corporate governance codes, first in Oman, in 2002, and then elsewhere across the region. Today, all countries in the MENA region have corporate governance codes and a number of them, including the UAE, Jordan, and Saudi Arabia, also offer specific guidelines for banking and financial institutions. It is worth noting that, in the past three years, policy makers have also demonstrated an interest in setting guidelines for privately held corporations.

In the meantime, the ongoing development of capital markets has created a demand for greater transparency and has slowly but surely pushed disclosure and

broader governance issues onto the policy agenda, for instance the Chairman of the Securities and Commodities Authority resolution number 7 of 2016 introduced the issue of the presence of women on boards. Between 2005 and 2009, 11 corporate governance codes were introduced by national regulators, in addition to specialized guidance for state-owned enterprises, banks, and family-owned companies. Today, all MENA jurisdictions except Iraq have a corporate governance code and 10 of the 17 of the region's codes apply to listed companies on a comply or explain (CoE) basis, requiring their compliance or justification of non-adherence. A number of regulators have also added mandatory provisions. For instance, in Saudi Arabia, the chief executive officer (CEO) cannot also be the chair. A number of regulators, such as the Omani, Saudi, and Egyptian capital market authorities, have reviewed the requirements imposed on public companies to bring these in line with international standards and to incorporate lessons learned from the financial crisis. In parallel, the listing requirements have been reviewed and revised in a number of markets, including those of Saudi Arabia, Kuwait, and Egypt. This trend is expected to continue, facilitated by structural changes in the stock exchange industry, particularly by the expected privatization and demutualization of exchanges.

The introduction of corporate governance codes and related securities regulations is intended to create deeper capital markets and to improve the transparency of the listed companies as well as market participants. The corporate governance debate has emphasized the enforceability of these rules. A survey of the enforcement activities of the region's securities regulators demonstrates that their capacities require further development in most countries of the region, owing to their relatively recent establishment and lack of experience in prosecuting complex cases (Organisation for Economic Co-operation and Development, or OECD, 2014).

Currently, regulator supervision and enforcement activity in listed companies are focused on disclosure practices. This is partly because disclosure is a key priority for governance improvements targeted by regulators. However, this focus also reflects the limited experience thus far in investigating and prosecuting more complex breaches of governance that can arise in the context of related-party transactions, corporate mergers, and delistings, which can require the expertise of outside valuation specialists and appeals to the courts.

The beginnings of a corporate governance system in the UAE – though, at the time, it was not conceived in those terms – draw back to the CCL adopted in 1984, which was used for a long time to promote corporate governance (Cameron, Garland, & Campbell, 2010). However, the few provisions in the CCL were generally not in line with international standards in terms of various aspects of corporate governance, since few amendments were introduced to reflect new global developments (Rehman, Rehman, & Raoof, 2010). To some extent, this lack of alignment is not surprising, considering that, at the time, the UAE did not have a capital market, the majority of its large companies were either state or family controlled, and shareholders were not ready for the adoption of modern corporate governance requirements. In this regard, a number of changes have taken place in the UAE to conform to the various global developments in the field of corporate governance (Cameron, Garland, & Campbell, 2010). These changes occurred only in the mid-2000s, when greater attention to corporate governance started to emerge in the region, particularly following the 2006 crisis in the Gulf capital markets (especially in Saudi Arabia). While that stock market crash was not triggered by any particular corporate scandal, it led regional regulators to reflect on how to make capital markets less prone to the jitters and less rumour driven (OECD, 2011).

With the capital markets in the MENA region starting to develop rapidly in early 2000, market capitalization increased impressively until the crisis, which created the need for a more comprehensive set of rules to govern these capital markets, including in the area of corporate governance. This period also saw the beginning of market abuse, especially in the Saudi market, which saw significant insider trading and market manipulation. The importance of corporate governance was recognized in the GCC later than in other emerging markets, such as in Asia, where the Asian financial crisis had placed good governance squarely onto the policy agenda. Indeed, the GCC states did not pay attention to corporate governance until after the 1997 Asian crisis, even though it would have been vital in preventing the crisis, since corporate misconduct was involved (Aljifri, 2008).

The central bank of the UAE has also been a key player in the establishment of good governance rules in the banking sector and its governance rules preceded those introduced by the SCA. The introduction of governance rules in the banking sector prior to those for listed companies might be unusual in Europe and North America, but it is common in the GCC countries, where the banking sector has always been significantly more developed than the capital markets. Indeed, the original central bank requirements for the boards of banks in the UAE date back to 2000 and the UAE central bank is due to release a revised corporate governance code for banks in the near future, this bears that Banks are exempt from SCA corporate governance regulations by virtue of paragraph 1 of article 6 of the Commercial Companies Law number 2 of 2015. The revised corporate governance resolution issued in 2006 is broader in scope than the SCA rules and addresses issues such as succession planning and board evaluations. However, it is substantially less prescriptive than the corporate governance regulation issued by the SCA in a number

of other respects, including the definition of independent board members and conflicts of interest. The revised corporate governance resolution is also significantly more suggestive in terms of proposing a suitable structure for the boards of banks, mirroring the SCA requirement that the CEO and chair roles be separate and that board committees be established.[7]

However, although the central bank requirements place the responsibility on individual banks of preparing their individual corporate governance reports that outline their governance structure and policies, they are significantly less prescriptive than the SCA requirements regarding board composition and responsibilities. Apart from the fact that board members are required to have a fit and proper test and that the central bank must be notified of the appointment of all board members, the guidelines do not mandate a minimum number of independent and non-executive directors on the board, the frequency of board meetings, or the procedures for the appointment of directors and the length of their mandates.

Although the central bank governance regulations suggest that banks be compliant with the Basel II standards, these standards were revised in 2015 and the central bank governance regulations for banks also merit revisiting. The UAE's central bank has announced that it would issue new corporate governance and risk management rules but their release has been delayed. The new rules will need to incorporate Basel II revised corporate governance principles, as well as address key challenges for UAE banks, such as related-party transactions. In the meantime, in

[7] The banking corporate governance code suggests a greater number of committees to be established than indicated by the SCA corporate governance regulations, including executive, remuneration, nomination, audit and compliance, and credit committees to be established at the board level and a risk committee to be established at the management level.

2018, the government issued a new law governing the central bank and the regulation of financial institutions and activities in an effort to bolster monetary performance and confidence in the economy. The new rules will also need to take into account the commitment by the UAE and the banking sector to increase cross-border transparency in the sector.

Table 2 presents an overview of bank corporate governance codes in the middle East. For the moment, in some jurisdictions, including Lebanon, Bahrain, and the UAE, regulators require banks to develop their own governance codes based on local corporate governance requirements. In these countries, the regulators allow the board, as a key governance organ, to determine the bank's governance structure. Saudi Arabia, Kuwait, and Oman adopt more prescriptive approaches, dictating specific governance requirements in terms of board composition and its remit of responsibility. Considering the introduction of new Corporate Governance Principles for Banking Institutions by the Basel Committee in 2015, the UAE central bank guidelines merit review to ensure that they adopt international best practices and that the governance practices in the banking sector remain, at a minimum, in line with those in the non-financial sector. Recent assessments have demonstrated that this is not the case (International Monetary Fund, 2013).

Table 2: Bank corporate governance codes in the Middle East

Jurisdiction	Corporate governance code	Approach
Bahrain	Corporate governance code	CoE
Egypt	Corporate governance code for banks	Binding
Jordan	Corporate governance code for banks Guidelines for Islamic banks	CoE
Kuwait	Rules and systems of governance in Kuwaiti banks Regulations of legitimate governance oversight in Islamic Kuwaiti banks	Binding
Lebanon	Various Banque du Liban circulars	Binding
Morocco	Central bank directive on the corporate governance of credit organizations National Commission on Corporate Governance recommendations	Binding
Oman	Corporate governance guidelines for banking and financial institutions Recommendations for Islamic banks	Binding
Qatar	Corporate governance guidelines	CoE
Saudi Arabia	Principles of corporate governance for banks	Binding
Tunisia	Guidelines for banks and credit institutions	Binding
UAE	Corporate governance guidelines for bank Directors (draft currently under revision) Required administrative structure in UAE banks	Binding

Source: GOVERN (2017)

For example, in Saudi Arabia, banks are recommended to have a board comprised of nine to 11 members, including a non-executive chairperson (separate from the CEO) and at least two independent board members, but no more than two executive board members. In particular, the Saudi Arabian Monetary Authority (SAMA) prohibits a board member of any bank to sit on the board of any other bank in Saudi Arabia, whereas this practice remains common in the UAE, and limits the terms of bank board members to three years (SAMA, 2014).

Efforts have also been taken to improve the governance standards of unlisted companies. Other important steps for strengthening corporate governance have been the introduction of corporate governance guidelines for small and medium-sized enterprises in Dubai and the drafting of a corporate governance code for the real estate sector by the Dubai Real Estate Regulatory Agency in 2011 to deal with the specificities of this sector. Perhaps more importantly, following the sovereign crisis in the UAE in 2008–2009, brought about by the global financial crisis, the government sought to improve the governance of government-related entities (GREs). Immediately following the crisis, Dubai revamped the boards of many GREs (e.g. DW, Nakheel, Dubai Drydocks, JAFZA, DIFC, Limitless, ENBD, NIB, DREC) and installed a new set of board of directors with the representation of key government officials on the board. Dubai also strengthened the role of the Dubai Supreme Fiscal Committee in GREs' decision making processes. The Ruler of Dubai has spoken of the importance of introducing specific governance standards for GREs, but, due to the complexity of ownership of state-owned enterprises in Dubai, this has not been done. Furthermore, the Ruler of Dubai has requested that all state-owned enterprises appoint at least one woman on the board of every government-owned company. This drive to improve diversity is also reflected in the political governance models of the UAE, with the appointment of women and youths to the UAE cabinet.

In addition, individual holding companies and sectoral regulators have adopted a specific customized approach to improving the corporate governance of their subsidiaries. The CCL, in place since 1984, did not provide specific guidance on corporate governance, including on board composition, sectoral regulators took the liberty to establish additional rules. In 2010, the government of Abu Dhabi established a governance committee to supervise the development and adoption of

governance concepts and frameworks in the public sector. Abu Dhabi also set up the Office of State-owned Enterprises in 2012 to coordinate and monitor the activities of its GREs and upgrade their corporate governance. The idea of developing governance standards specific to state-owned enterprises was considered by the Executive Council but was not adopted. In Abu Dhabi as in Dubai, the governance approach adopted was developed by the GRE holding companies for their subsidiaries.

Finally, a separate set of governance rules in the UAE was established to apply to off-shore entities. Perhaps the most sophisticated of these was issued by the DFSA for all companies regulated by the Dubai International Financial Centre (DIFC). The DFSA issued a separate governance rulebook in 2012 for DFSA-regulated companies and similar governance mechanisms are expected to be adopted by the Abu Dhabi Global Market (ADGM), created in 2014, though these rules are beyond the scope of this research, due to the fact that this research is intended to empirically test onshore listed companies that fall under the SCA resolutions. These rules, considering that they apply to a much wider range of regulated entities, are more general, since they concern board composition and responsibilities. They are, however, more specific than the SCA rules on specific transactions or contexts that could be relevant to the regulated financial institutions.[8]

The importance of the DIFC and the ADGM and other jurisdictions, along with the UAE, that have a separate regulatory framework applicable to companies domiciled therein changed with the recent announcement allowing majority-owned

[8] For example, the board of a regulated entity must ensure that the reporting entity does not purchase its own shares unless the purchase does not materially prejudice its ability to pay its creditors or it obtained prior approval of the shareholders in a meeting by majority vote or prior to the meeting.

foreign companies to be established in the country. This development effectively had an impact on free zones in the UAE, where Dubai has been very active in setting these up, with over 30 such zones in active operation as of 2018. However, apart from the DIFC and ADGM, most of these zones have less stringent governance standards than those required of listed companies. While the DFSA code applies to regulated entities on a CoE basis, the SCA rules are mandatory. The DFSA is one of the few regulators in the region to systematically publish the details of its enforcement decisions publicly or require sanctioned companies to post these decisions on its website. In addition, it applies more stringent penalties for breaches of corporate governance regulations, as evidenced in its decisions against Shuaa Capital, Damas, and, more recently, Deutsche Bank.

In 2008, DFSA carried out enforcement actions against one of the subsidiaries of Shuaa Capital, a diversified listed financial services firm based in the UAE, for the manipulation of shares in DP World, another company cross-listed in London. The company was fined $850,000 and the DFSA required the appointment of a suitable compliance officer for Shuaa and all its subsidiaries. In addition, the company was forced to undertake an independent risk and compliance review by a DFSA-approved firm (DFSA, 2008). Perhaps the most well-known example of governance-related enforcement is the case of the UAE-based international jewellery retailer Damas, which listed on NASDAQ Dubai in 2008. In this case, the controlling shareholders, also the company founders, made unauthorized withdrawals of corporate funds for a total of over USD 160 million. The investigation was complicated by a number of considerations, notably the fact that the DFSA does not have criminal jurisdiction, all the assets of the persons under investigation were outside the DFSA’s jurisdiction, and some of the property was fully protected from

the proceedings. Following an extensive investigation, the company auditor discovered grave corporate governance failures: conflicts of interest at the board level, failure of the audit committee to meet, unauthorized use of company assets, inadequate segregation of duties, and other issues. The DFSA proceeded to remove the board, appointed senior executive staff, and forced the majority shareholders to fully disclose their assets. The controlling shareholder was fined USD 700,000 (USD 600,000 of which was suspended indefinitely) for serious corporate governance failures.

These examples, as well as the recent Abraaj case, which galvanized international interest and adversely affected the reputation of the UAE as a financial centre, point to the fact that the SCA needs to focus on further improving its enforcement capacity. The schedule of penalties published by the SCA at the end of 2015 is an indication of its willingness to do so. Although the concept of naming and shaming is still relatively new to the GCC region, it acts as a powerful deterrent of future abuse. The Saudi regulator, the Capital Market Authority (CMA), for instance, is very active in imposing governance-related penalties on both issuers and market intermediaries for insider trading and market manipulation.

3.2.1 The 2007 Securities & Commodities Authority Resolution

Two specific regulations have been key to raising awareness and improving the quality of governance practices in the UAE: the Corporate Governance Ministerial resolution number 518 of 2009 for Listed Companies, and the 2006 UAE Central Bank resolution for Banks. These regulations provided significant impetus for the improvement of corporate governance practices in the UAE, considering it was introduced prior to the revision of the Commercial Companies Law, which

contains further standards, which will be discussed below. The regulation applies to all companies listed on onshore exchanges in the UAE and introduced the first binding governance in the UAE for listed companies, although banks, state-owned enterprises, and foreign companies were excluded from its scope.

The turning point in the evolution of the corporate governance regime in the UAE was the establishment of the SCA in 2000, by virtue of Law 4 (subsequently amended by Federal Law 25 in 2006). The SCA was established as the first independent, dedicated securities regulator in the UAE, although chaired by the Ministry of Economy of the UAE. The importance of promoting good governance, market integrity, and investor protection is reflected in the SCA's mandate as defined in the law and it has been given a broad mandate to introduce and enforce governance standards on not only listed companies but also market intermediaries.

Following the events of 2006, the SCA moved to introduce the first UAE corporate governance code in 2007 to lay down initial governance rules. Oman and Egypt were the pioneers in the region, developing domestic governance codes in 2002 and 2005, respectively. Bearing in mind the tremendous need for education and training services, the emergence of corporate governance centres was only a natural extension of this process. The Egyptian Institute of Directors and the UAE Hawkamah Institute for Corporate Governance were the first institute of directors and corporate governance centre to be established in the region.[9]

The aforementioned SCA Corporate Governance resolution (no. R/32) called for the application of corporate governance by introducing a statutory corporate

[9] The UAE is now also home to the GCC Board Directors Institute (BDI) and the Abu Dhabi Centre for Corporate Governance.

governance regime to be implemented in the UAE. The aim was for all PJSCs located in the UAE, foreign companies, entities regulated by the central bank, and institutions owned by the government at both the emirate and federal levels to comply with the resolution by 30 April 2010 as per the grace period given by the resolution itself. In the UAE, the national corporate governance resolution represents the government's efforts to promote the greater monitoring and efficiency of the capital markets.

Despite the fact that various corporate governance aspects were already regulated by the CCL of 1984, certain provisions and enhancements that were provided by the code made the discipline standards and rules on corporate governance more comprehensive. For instance, the 2009 resolution emphasized management oversight and board of director functions through the appointment of more non-executive directors and independent members, who should comprise at least a third of the board. In addition, the resolution made it mandatory for companies to engage independent and neutral external auditors. Another monitoring tool the resolution recommended was the formation of functioning committees reporting back to the board, such as remuneration and audit committees. The 2007 resolution also indicated that board meetings be convened at least every two months.

Further development of corporate governance in the UAE can be attributed to this new resolution, where the duties performed by directors are enhanced further to streamline aspects of corporate governance in conformity with international standards. Whereas the CCL of 1984 allowed a single person to hold the positions of managing director and chair, the new resolution prohibits chairperson–CEO duality. This requirement makes aspects of UAE corporate governance similar to that in the

United Kingdom, one of the developed countries in which corporate governance has been well established for years.

3.2.2 Resolution No. 518 of 2009 by the Ministry of Economy

In July 2009, Ministerial Resolution 518/2009 Concerning Corporate Governance Rules and Corporate Discipline Standards made corporate governance mandatory for all companies and institutions whose securities are listed on a securities market in the UAE. The ambit of this resolution excludes companies and institutions that are wholly owned by the UAE federal government or a local UAE government. In addition, the SCA is empowered to waive some of the corporate governance obligations of companies in which the government is a stakeholder.

Key issues that were not addressed by the old resolution include further recommendations on the balance of executive, non-executive, and independent directors; clarification of the duties and responsibilities of directors; the separation of the chairperson and CEO; as well as a number of issues dealing with financial reporting and auditing (Linklaters, 2010). Importantly, the new resolution emphasized article 89 of the CCL 1984 which introduced the notion of a corporate governance report, required to be submitted to the shareholders and to the regulator. All regulators in the GCC now require corporate governance reporting as part of the annual report. This is an important development, since it allows shareholders and stakeholders to better assess the quality of a company’s governance practices. Another key feature of the resolution is the fact that it does not conform to the CoE principle. Companies to which the new resolution applied were required to comply with the new corporate governance requirements no later than April 2010. At the same time, the regulator asked companies to identify areas with any compliance

issues, under the risk of being fined. Breaches can result in penalties, including a warning, suspension of listing, delisting, or a fine. In essence, these guidelines set by the SCA play a vital role in improving company sustainability, by increasing monitoring by the board.

To facilitate compliance, the SCA provided a comprehensive template to help companies plan and comply with various requirements and submit annual reports. Any company listed in the UAE must also submit a standardized yearly report regarding its corporate governance practices to the SCA. This governance report is required to include information outlined as approved by the SCA, especially regarding details about its internal corporate governance system; any incidents of non-compliance; the remediation, management, or avoidance of violations; and a summary of the board's structure, including specific remuneration levels and details about senior management remuneration. According to Bushman, Chen, Engel, and Smith (2004), information disclosed in company annual reports indicating board composition and risk is vital to investors, since it reveals the board's capabilities as well as its strengths.

Companies listed on the DFM and ADX are mainly governed by a resolution with set outgoing disclosure requirements, including reporting obligations. Listed companies are also encouraged to bring to the attention of the SCA considerable developments that affect the value of securities. Moreover, non-compliance and violations of the SCA law and corporate governance resolution can be addressed through the suspension of and financial penalties on the listed firm. Box 3 summarizes the key provisions of the 2009 compulsory corporate governance resolution of the UAE.

Box 3: Key regulatory provisions on board composition and responsibilities

The articles of association shall determine the method of formation of the board of directors, the number of board of directors and terms of membership. Each board member shall disclose to the company the nature of positions he/she holds. The members of the first board of directors shall be elected by founders and subsequent boards for a fixed term by the company's shareholders, provided at least one-third is independent and the majority non-executive. No person shall assume the role of the Chairman of the Board and the Managing Director. The board of directors shall meet at least once every two months at the written notice of the Chairman and the documents are to be served at least one week prior to the date of the meeting. A meeting of the board shall be valid only if attended by a majority of the members. All attending members shall sign the board meeting minutes and these shall be kept by a company secretary. The board may at its own expense, by majority resolution, request an external option in any issues related to the company, provided conflicts of interest are avoided. The board of directors shall form an audit committee and a nomination and remuneration committee. These committees shall consist of at least three non-executive board members and two independent board members and will be chaired by the latter. The remuneration of the board members shall be a percentage of the net profits and can include additional expenses and fees or a monthly salary. Remuneration shall not exceed 10% of net profits. A company shall open nomination to membership of the board of directors by an announcement in two daily newspapers at least one month in advance. Each shareholder who meets the nomination conditions can stand for election.

Source: Ministerial Resolution No. (518) of 2009

3.2.3 The 2016 Corporate Governance Decision

Following the amendment of the OECD Principles of Corporate Governance, the UAE has also decided to amend its corporate governance resolution, issuing Directors' Resolution No. (7 R.M) of 2016 Concerning the Standards of Institutional Discipline and Governance of Public Shareholding Companies. The revision aims to

complement the new CCL No. 2 of 2015, which contains broad governance frameworks for different types of companies.[10]

The new resolution came into force on 1 May 2016, repealing the old governance rules issued under resolution No. (518). The new code applies on a CoE basis to all local public shareholding companies listed on the market and, notably, the chairpersons and members of boards of directors, managers, and auditors to whom the provisions of the CCL apply. The new rules focus on a number of areas not previously addressed. For example, specific provisions were introduced in relation to convening a general assembly. Unless approved by 95% of the shareholders, a board can no longer convene a general assembly with less than 30 days' notice. The notice convening the general assembly must be disclosed to the market via the market's regulatory news service and published on the company's website. The notice must also provide shareholders with adequate detail to understand the purpose and agenda of the meeting. SCA approval will still be required to convene the general assembly.

Another important point the new corporate governance code addresses is related-party transactions, since has indeed been the area of greatest corporate governance change in the region in the past three years, with the OECD and the Union of Arab Securities Authorities reporting on the issue. The new code suggests that "prior to entering into a transaction between a Related Party and the Company, the Mother Company, or the Affiliate Company reaching the limit stipulated in this Decision, the Related Party shall disclose immediately in writing, addressed to the Board of Directors, the nature of the deal, conditions and all substantial information

[10] Interestingly, the new code applies to all listed companies, including foreign companies listed on the UAE's regulated markets to which the code applies.

about his share or his stake in the two contracting companies and his interest or benefit, which the Board of Directors is required to immediately disclose to the Authority and the Market… Furthermore, in the event the Company enters into transactions with a Related Party, any shareholder who holds an equity stake of 5% or above has the right to inspect relevant company records."

The resolution addresses, more specifically, conflicts of interest. Under the new rules, PJSCs are also now required to maintain a register of conflicts of interest and insider and related-party matters. These registers are to be maintained by the company to ensure effective compliance. In particular, the regulator places special attention on insider trading, noting that "the Board of Directors shall set written rules regarding the trading of Board members and employees of the Company in the securities".

The majority of the changes introduced by the new corporate governance code pertain to the composition of the board of directors. Notably, the new governance rules reiterate Article 148 of the CCL, which states that, if a government owns 5% or more of a company's shares, it can then appoint a number of representatives to the company's board of directors prorated to its shareholdings, or at least one board member.

The new governance rules further set the rules for board membership. Overall, the majority of the board must consist of UAE nationals; however, the articles of association determine the formation of the board of directors, the number of board members, and the terms of membership. The articles of association shall specifically determine the number of executive, non-executive, and independent board members, provided that at least one-third of the board members are

independent and a majority are non-executive directors, (GCC BDI & GOVERN, 2016). As shown in Table 3, this composition is in line with the board requirements of the GCC, where most of the capital market and bank regulators require either one-third or the majority of the board to be independent, whereas developed market regulators now generally require the majority of the board to be independent. In the Gulf region, only Oman currently requires the boards of listed companies to be entirely composed of non-executive directors.

The rules also provide for the introduction of a chair and deputy chair, who cannot combine their role with that of the CEO, as is the case in other Gulf countries, where this separation remains generally mandatory. In some countries, this issue is addressed by the governance code, whereas in others it is a matter for the CCL. For instance, the new Saudi Companies Law issued in 2015

Table 3: Board composition in the Gulf

Country	**Board size**	**Non-executive directors**	**Independent directors**	**Chair–CEO separation**
UAE	3–15	Majority	33%	Yes
Saudi Arabia	3–11	Majority	33% or a minimum of 2 members	Yes
Kuwait	Not less than 5	Majority	1 member and no more than 50%	Yes
Oman	5–12	All	33% or a minimum of 2 members	Yes
Bahrain	5–15	Majority	33% or a minimum of 3 members	Yes
Qatar	5–11	Majority	33%	Yes

Source: Adapted from GCC BDI and GOVERN (2016)

The corporate governance code also specifies rules regarding board member appointments. Companies shall keep the process for submitting applications for board seats open for at least 10 days, publishing the details of the board candidates on the company website prior to the general assembly. Additionally, companies must provide to the SCA and the broader public the details of the appointed board members.

The 30% of independent directors appointed to the board has been, since the resolutions's last revision, subject to a more rigorous definition of independence, as outlined below. This follows a general trend in the region to better define board independence, since that tends to be a key governance challenge across the GCC region and, indeed, in other emerging markets. The definition of independence contained in Oman's corporate governance code is the most detailed in the region. In the UAE, independence is defined in terms of negative criteria, the existence of which results in the given board member's loss of status as an independent director. The number of years as a board member is not included in the definition of independence, a potential shortcoming relative to other countries and to the governance challenges in the UAE. A summary of the rules is presented in Box 4.

Box 4: Board independence criteria

A board member shall lose his/her independence in the following cases:

a. If a Board member or any of his/her first-degree relatives work or worked at the Senior Executive Management of the Company or its Subsidiary Company during the two years preceding his/her nomination for Board membership.

b. If a Board member or any of his/her first-degree relatives has a direct or indirect interest in the contracts and projects of the Company or its subsidiary companies during the last two years and the total of such transactions exceeds 5% of the Company's paid capital or the amount of AED 5 million or its equivalent amount in a foreign currency, the lesser of the two, unless such relationship is part of the nature of the Company's business and involves no preferential terms.

c. If a Board member works or worked for the Company or its subsidiary companies prior to the date of occupying a seat in the Board of Directors.

d. If a Board member works for or is a partner in a Company that performs consulting works for the Company or any of its Mother, subsidiary, sister, or affiliate companies.

e. If a Board member has entered into personal services contracts with the Company or any of its Mother, subsidiary, sister, or affiliate companies.

f. If a Board member is directly engaged in a non-profit organization that receives sizeable finances from the Company or its subsidiary companies.

g. If a Board member or any of his/her relatives is a partner or employee of the Company's auditor or if the Board member was a partner or employee of the Company's auditor during the two years preceding his/her occupying a seat in the Board of Directors.

h. If a Board member and/or any of his/her minor children own 10% or more of the Company's capital.

i. Independence of a Board member shall not be affected for the reason of only being an employee of the Mother Company or any of its subsidiary companies in case any of such companies is owned by the government or in case at least 75% of the Mother or subsidiary companies is owned by the government or the subsidiary companies of the government.

An additional relevant development in the resolution is its focus on board diversity. The new code requires at least 20% of board members to be women, the first such requirement in the region. The SCA has clarified that it expects at least one

woman to be nominated (but not necessarily appointed) to the board of each listed company. However, at this time, it is unclear whether this requirement has been implemented by listed companies, since there has been no empirical research on this topic.

As can be seen from the above information that the UAE's corporate governance code has evolved significantly between its introduction in 2009 and 2016, when it was last revised, notably with respect to board composition and diversity, the organization and conduct of board meetings, the requirement of specific functions within the company to support the adoption of good corporate governance (e.g. appointment of an investor relations officer), and other aspects outlined above. Recommendations were added regarding the balance between executive, non-executive, and independent directors, in addition to a clarification of the duties and responsibilities of directors, the separation of chairperson and CEO, as well as a number of issues dealing with financial reporting and auditing. All these provisions are intended to remedy drawbacks noted in the implementation of the old code and to be in closer compliance with international practice.

The UAE is a progressive country, where any regulation starts by testing simpler requirements before moving to a full-fledged regime. The SCA regularly publishes communications to indicate companies' growing compliance to established corporate governance rules, which is measured by the quality of their corporate governance reports. Indeed, one of the major developments of the new code has been the introduction of the corporate governance report that must be submitted to the shareholders and to the regulator. The governance report specifies which areas of the code are not in compliance and the reasons why. These reports give great assurance

to investors and ease the process of documenting and supervising companies' corporate governance practices. The reports are available at the regulator's, exchanges', and company's websites.

3.2.4 Benchmarking the UAE Regulatory Framework of Corporate Governance to Regional and International Practices

When the UAE's corporate governance requirements are compared to those imposed by the regulators of peer countries' securities, a number of areas for further improvement can be highlighted. Although, at the time of its introduction, the UAE's code was in line with those of its peers and struck an appropriate balance between raising corporate governance standards and imposing requirements that would effectively stop issuance in the public equity markets, the requirements are now outdated in a number of areas and require further rethinking and even eventual revision. Although an examination of the areas in which the code could be upgraded is beyond the scope of this dissertation, it is important to determine how the code compares with its regional and international peers and what good practices from neighbouring and global jurisdictions can be highlighted. Comparison of the requirements of the code with internationally accepted benchmarks is also relevant. For the purposes of this research, we consider the OECD Principles of Corporate Governance to be globally recognized corporate governance standards upon which many national corporate governance principles are based, including those in the GCC region.

The SCA's corporate governance principles were also inspired by the OECD Principles of Corporate Governance. Considering these standards' recent revision and adoption as a G20 standard, a benchmarking of the requirements of the

principles of the UAE's corporate governance code, particularly in the areas of board composition and functioning, appears pertinent for the purposes of this research. Originally introduced in 2004, this global governance instrument was revised in 2015 and adopted as a G20 standard, further underpinning its legitimacy. The OECD Principles of Corporate Governance are not particularly prescriptive and instead aim to provide a benchmark for regulators in terms of globally recognized good corporate governance practices. These practices naturally vary, depending on whether a given jurisdiction is a civil or common law jurisdiction, whether controlled ownership is prevalent, and whether boards are single or dual tiered. Therefore, the SCA code can only be benchmarked against the OECD standards to the extent of ensuring its compliance in spirit with their recommendations.

The following brief description of regional regulations serves as a prelude to benchmarking the UAE corporate governance regulations with regional and international practices, starting with the neighbouring country of Oman, the first jurisdiction in the GCC to introduce a corporate governance code, in 2002. Oman was followed by the first Saudi corporate governance code, in 2006, issued at the height of the GCC capital market crisis, and the Qatari corporate governance code, issued in 2011 (revised in 2014). The Bahraini and Kuwaiti codes followed in 2016. All, with the exception of the Kuwaiti corporate governance code, were introduced as CoE codes and regulators' abilities to inspect and enforce requirements have been evolving over time (OECD, 2015). While the Kuwaiti corporate governance code was initially mandatory for all listed companies, the new code – issued as part of the overall capital markets law review in November 2015 – was also introduced as a

CoE code, applicable to all listed companies and financial market participants.[11] All of the corporate governance codes in the GCC, with the exception of that of Bahrain (the only country in the region to have a unified financial services regulator), were introduced by the securities authorities, who also hold the power of enforcing them.[12] Most stock exchanges, with the exception of the Muscat Securities Market, have few powers beyond monitoring market abuse to review company compliance with the code (OECD, 2014). All the GCC jurisdictions currently have CoE codes. The Saudi, Bahraini, and Omani regulations are the most stringent as far as defining board composition and responsibilities. The Saudi securities regulator took the opposite approach of Kuwait's, gradually mandating specific provisions of the code[13] while retaining the majority of the recommendations on a CoE basis.

It is worth briefly highlighting aspects of the code that the Saudi CMA considers indispensable for all issuers, since they are yet mandatory in the UAE. Specifically, the board of directors report, which outlines compliance with corporate governance regulations, shall specifically address the classifications of directors as independent, non-executive, or executive; any cross-directorship; the remuneration details for the top five officials; and descriptions of the activities and composition of the audit and nomination committee. Key rules concerning board nomination and composition are also mandatory in Saudi Arabia, including the requirements of the majority of the board being non-executive, separation of the CEO and chairperson

[11] This reversal in regulatory requirements was widely attributed to the backlash against the original code by listed companies and a different regulatory approach was adopted by the second board of Kuwait's Capital Market Authority.

[12] Egypt also has a unified regulator, since the merger of different financial regulators and the establishment of the Egyptian Financial Authority.

[13] Articles 9, 12, and 14 of the code are mandatory.

roles, and no fewer than two members or no less than one-third of the members on the board (whichever is greater) being independent directors. Formation of an audit committee is also mandatory and it shall include at least three members, excluding executive members; however, the regulations do not specify the composition of the nomination and remuneration committee, although this committee is also mandatory.

Oman introduced a significantly tougher corporate governance code in 2015, specifically requiring that all board members be non-executive directors, whereas the previous code required that a majority of the board be non-executive, this latter requirement being a common standard in the GCC and, indeed, globally. According to a recent survey of OECD countries, the most common board structure in the surveyed jurisdictions is for the majority to be independent (OECD, 2017). The new Omani code also makes a number of recommendations such as the appointment of a qualified corporate secretary who cannot be a member of the senior management team or a related party.[14] A number of related areas also appear to be the focus of revisions introduced by securities regulators, who have now had five to 10 years,[15] depending on the country, to review companies' compliance practices and revise provisions whose compliance rates appear low. In particular, a number of GCC jurisdictions have moved to introduce further regulations to improve the independence of boards and their committees by stipulating the number of non-executive and independent members on the board as a whole and on its committees, especially the audit and remuneration and nomination committees. The criteria, mostly negative criteria, formulated as the conditions under which a board member

[14] Additionally, the chair of a board committee cannot chair any other committee.

[15] With the exception of Kuwait, where both the securities regulator and the corporate governance rules are relatively recent compared to the rest of the GCC countries.

would no longer be considered independent, aim to reinforce board independence, especially in critical matters such as the approval of auditors and executive remuneration.

No Gulf regulator has yet introduced the concept of a lead independent director, which was initially introduced in the UK regime and since evoked in a number of other countries. While the concept of a lead independent director has not been explored or introduced by any regulators in the GCC region, a recent survey found that 44% of respondents believe lead independent directors should be introduced in all companies and a further 31% believe it should be introduced in listed and state-owned companies only. Less than 10% of those surveyed indicated the role was not compatible with board dynamics in the Gulf (GCC BDI & GOVERN, 2016.).

A few GCC countries, such as Saudi Arabia and Bahrain, have introduced related provisions regarding the length of the mandate to avoid the phenomenon of entrenched boards, since it was common for prominent members of the government and the business community to occupy board seats without being formally re-elected. In the UAE, the tenure of a board member is 3 years renewable to an unlimited renewals as provisioned for in the companies'articles of association. This is a potential drawback, since many board members in the UAE have long mandates, impeding their effectiveness as well as independence. This situation combined with the accumulation of many board member mandates is detrimental to board effectiveness in the UAE. Most other jurisdictions worldwide limit either the number of mandates or the number of years a board member can serve on the board being no

longer being considered independent. The typical duration in OECD member countries, for example, is between nine and 12 years.

A number of countries have also introduced limitations on the number of boards a board member can sit on simultaneously, most typically five. The Saudi banking regulator SAMA has gone so far as to recommend in its code that board members of Saudi banks be limited to one appointment. While this recommendation is in line with internationally accepted practices, it is a relatively new requirement in the GCC region, considering that, only five years ago, it was still common to have individuals sitting on multiple boards. This was especially problematic for Sharia boards, since few scholars in the sector possess the requisite financial sector experience.

Codes in the region stipulate that board members shall represent the interests of all shareholders and not only the shareholders who appointed them. At the same time, the practice whereby board members must hold shares while addressing some of the issues raised by agency theory results in situations where board members are not incentivized to represent the interests of all shareholders. It is, however, worth mentioning that, in the GCC countries' various corporate governance regulations, board members who hold 5–10% ownership in a company are generally not considered independent. They cannot, therefore, take on certain critical roles; for instance, in most countries, the chair of the audit committee must be independent.

Other measures have been taken to professionalize boards. For instance, the role of the corporate secretary, not generally addressed in corporate governance codes and often underestimated in the region, appears to have gained importance in the new generation of corporate governance regulations, since regulators now

recognize that an executive board secretary without the requisite financial and legal skills cannot be expected to service a board. Most regulators now require the company secretary to be a non-executive director. Only the Kuwaiti code suggests that the board secretary be appointed from among the company's employees.[16] In practice, however, board secretaries are still often selected from among the board members and they therefore do not have the time or the requisite legal and compliance training to effectively perform their duties. Alternatively, the duties of the board secretary are often delegated to the head of the legal or compliance department, which represents a potential conflict of interest. In accordance with paragraph 4 of article 143 of the CCL number 2 of 2015, the new UAE corporate governance resolution specification that "the company shall appoint a secretary to the Board of Directors who is not a member of the Board of Directors' is therefore a positive development."

With regard to board composition, most GCC jurisdictions, except Saudi Arabia and Bahrain, do not specify the size, leaving it to the company to decide, depending on the complexity of the sector, the ownership structure, and other parameters. The same is true in the OECD area, where most countries do not mandate the size of the board. For countries that do set such a requirement, the minimum size is typically three members and the maximum size ranges from 11 to 15.

The qualifications of board members are assessed prior to their appointment, especially considering that a number of regulators now require annual board

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[16] At the same time, it also stipulates that a board secretary cannot be appointed or removed except by a board of directors.

evaluations. The Qatar Financial Markets Authority now requires that the CVs of the board members be included in the annual corporate governance report. The Qatari CMA and Saudi CMA now require periodic board evaluations, although no regulator in the region has prescribed how their results should be reported.

The UAE is in line with the other GCC countries, as well as with international best practices, concerning the separation of the chair and CEO roles in requiring the majority of the board to be non-executive. Although the separation of the chairperson and CEO roles is recommended in the OECD principles, about half of the countries in the OECD do not require it explicitly. Only a few countries, such as Sweden, require the two roles to be separate. It appears that the UAE and the region as a whole are in line with international standards and regional practices.

The OECD principles recommend that the board be able to exercise independent judgement. Echoing these recommendations, all GCC countries, with the exception of Oman (which requires all board members to be non-executive directors, as of 2016) require the majority of the board to be non-executive directors. Most of the GCC countries, including the UAE (paragraph 2 of article 144 of the CCL number 2 of 2015), also require a third of the board to be independent, although the current requirements in Qatar and Kuwait are lower. Benchmarking the GCC requirements to global standards reveals general coherence, although most OECD countries now require or recommend that a majority of the board be independent, whereas the GCC countries generally require the majority to be non-executive but not necessarily independent members. This requirement is in line with the approach of some countries, such as Hong Kong, but it is generally less stringent than the consensus standards in developed economies. Considering the controlled nature of

GCC companies, this is an area where further regulatory action would be important. It appears, therefore, that the GCC countries may need to further review their independence requirements for boards. The tendency of some MENA regulators to recommend specific numbers of independent directors is somewhat inconsistent with the fact that board size is left up to the company to decide according to its articles of association, particularly in countries such as Bahrain, where the board can be as large as 15 members. This can result in situations with a single independent member on a board of 10, which effectively leaves that member as a lone voice, unable to affect change. In Bahrain, for instance, the board can consist of up to 15 members, with only three executives.

In the UAE (Paragraph 1 of article 143 of the CCL number 2 of 2015, 3 year term and can be re-elected for an unlimited number of terms), as indeed in most Gulf countries except Saudi Arabia and Bahrain, the duration of the mandates of board members is not specified. Although this could be seen as a technical detail not worthy of specific regulatory provisions, board members who sit on a board for an extended period can sacrifice their independence. Therefore, most developed market codes specify a period following which a board member is no longer considered independent that ranges between six and 12 years, depending on the jurisdiction. Moreover, some developed countries now recommend that board elections take place every one to three years. The fact that the UAE does not yet have this requirement could be a cause for concern regarding the implementation of the OECD recommendations in relation to the spirit of board independence. Further research into the length of board mandates in the UAE is warranted to better understand if the average mandate of a board member is too long to impact member independence. Similarly, it would be worth examining whether the provision in the UAE that sets

board fees at a maximum of 10% of net profits is too high to impact board member independence.

In addition, the fact that the UAE does limit the number of concurrent appointments a board member can have to five as a member and 2 as a chairman or deputy chairman and 1 as a managing director, by virtue of paragraph 1 of article 149 of the CCL number 2 of 2015. In the GCC region, this is a common practice and only Saudi Arabia limits the number of board posts a given board member can have to five. The same is the case in other countries in the region, such as Morocco, possibly indicating the beginnings of a new governance trend in the region.

Other provisions that can affect board performance are those addressing the frequency and attendance of board meetings and those related to handling conflicts of interest and the capacity of board members to seek external advice when necessary. By and large, such provisions are present in all corporate governance codes in the region, including the SCA recommendations. For instance, the SCA code requires that at least four board meetings be held annually, whereas the previous requirement was six meetings per year. This brings corporate governance requirements in the UAE in line with those of the other GCC countries, which typically require four board meetings to be held, in addition to committee meetings. Some regulators, such as the Saudi CMA, also stipulate in the code how many board committee meetings listed companies shall hold.

A board meeting in the UAE is considered valid only if attended in person by a majority of the board members, which is a stricter requirement than in most other GCC countries, except for Kuwait. Some companies in the region are starting to publish information about board meetings, including board member attendance, in

the corporate governance report. Specific attendance requirements are especially important in countries such as Saudi Arabia, where a quorum is often not attained in board meetings. The UAE's rule to have a majority of board members represented at each board meeting is important in ensuring adequate shareholder representation.

Another important aspect of the operation and structure of boards in the UAE is their ability to form specialized committees. In particular, the SCA code recommends the formation of an audit committee as well as nomination and remuneration committees, which is in line with regional standards. Bahrain, Kuwait, and Saudi Arabia recommend the formation of other committees in addition to these two. All codes in the region ultimately provide companies the flexibility to decide on additional committees they may wish to introduce. Many jurisdictions have recently moved to require a risk management committee, especially for financial institutions. However, codes in the region are quite prescriptive with regards to the composition of these committees. The tendency is to specify, as the UAE's securities regulator does, the minimum size of board committees and their minimum number of independent directors. The UAE code has one very useful addition that other codes in the region lack, which is that the chair of the board may not be part of the audit and remuneration committees. The new code specifies that 'the Chairman of the Board of Directors shall not be a member of any such committees'.

The new code introduced a number of revisions in the composition of board committees. Whereas, previously, the composition of each committee was addressed, now the code stipulates that all board committees shall have at least three non-executive board members, at least two of whom shall be independent board members, and shall be chaired by one independent board member. In case of the

audit committee, the code specifies that one or more members can be appointed from outside the company if the available number of non-executive board members is insufficient. In the previous version of the code, a majority of the audit committee was required to be independent and it could not include executives, a very important provision that ensures audit committees' independent assessment of company financial matters. Other codes in the region refer to a lower benchmark, only requiring committee members to be non-executive directors, as in the case of Qatar. An increasingly common practice is to appoint a lead independent director and for this director to take on other responsibilities, such as chairing the audit committee. The practice of having a lead independent director has not yet been integrated within the region's regulatory standards, however, and, therefore, has not yet materialized into company practices. The new code has also made an important change in terms of the requirement for financial experts to explicitly be part of the audit committee. The previous version of the UAE's governance code made no such explicit requirement, whereas the codes of all the other countries in the region, except for Qatar, do. Until recently, the UAE and Bahrain were the only jurisdictions in the region to require the audit committees of listed companies to meet quarterly (four times a year in the case of Bahrain). Now, other regulators, such as the Saudi CMA and regulators in the broader MENA region, are requiring the same.

In summary, the SCA corporate governance resolutions and the CCL of 2015, in many regards, reflect the consensus of the region's best practices, though itthe SCA resolution is less comprehensive and specific than some of the other codes in the region, especially the Kuwaiti and Bahraini codes. In specific respects, the code is unique to the region. The UAE is also unique in the region for having been the first to mandate that all listed companies appoint an investor relations officer, a reform

measure certainly linked to the upgrade of the UAE to emerging market status, which led to an increase in foreign portfolio investments in the country. More recently, the Saudi regulator also moved to strongly encourage issuers to appoint a designated investor relations officer. In practice, investor relations officers in the region tend to play a more formalistic role as opposed to a real investor liaison role.

It bears mentioning that, at the time of its introduction, the resolution's provisions were significantly stringent. The CCL did not require the separation of the CEO and chairperson roles; the corporate governance resolutions did. The first two governance resolutions provide further nuances on the structure of the board, specifying that it should have a balance of executive, non-executive, and independent directors, each of which is defined within the code. The definition of independent director is narrower than in the old resolution (Linklaters, 2010). The resolution also went to further detail, such as specifying that each of the committees must submit a written report to the board, specifying its procedures, findings, and recommendations.

At the same time, as noted in the foregoing analysis, the resolution now needs to be further re-examined to ensure its coherence with the recently revised OECD Principles of Corporate Governance, as well as with emerging best practices globally and in the region. In particular, the terms of the appointment of directors and re-election procedures could be addressed more comprehensively (paragraph 1 of article 143 of the CCL does not limit the number of terms a board member can serve), just as the limits on the number of board appointments could. With regards to the latter, board appointments should include those in publicly listed, private, and state-owned companies.

Relatedly, other measures to improve the performance of UAE boards can include board performance reviews, which can be carried out annually or biannually, since the UAE does not have a practice of staggered boards. Currently, some boards of large UAE-listed and state-owned companies have conducted board performance assessments or at least governance-related retreats for board members, but this practice remains far from the norm. Board evaluations have proven to be a powerful tool in enhancing board performance, although, for the time being, regulators have left it up to the companies to decide how frequently they shall be performed and whether they shall be outsourced or performed internally. Nonetheless, the past three years have seen a growth in the number of board evaluations in the region. For instance, 36% of GCC BDI survey respondents in 2016 commented that board evaluations are conducted on an annual basis and 17% noted that they are conducted periodically, while an additional 38% said that they are looking to introduce board evaluations. Over a third of the respondents thought that the introduction of board evaluations was driven by global best practice and 17% commented that it was a regulatory requirement (GCC BDI & GOVERN, 2016).

Considering the evolution of global corporate governance practices, the independence of the board can be further strengthened by giving either the audit committee or independent directors the lead responsibility for reviewing and approving specific interests-conflicting transactions or related-party transactions. Specific transactions with board members, such as loans to board members, could be explicitly forbidden, as is already the case in Saudi Arabia. In fact, the revised CCL stipulates that PJSCs and their subsidiaries cannot provide financial assistance (e.g. loans, gifts, donations, company assets as security, or the provision of security/guarantee of another person’s obligations) to any shareholder to hold shares,

bonds, or sukuk issued by the company (Art. 222 of the New CCL of 2015). In addition, subject to the consent of the board of directors/managers and the company general assembly, a PJSC may not undertake transactions with related parties of a value in excess of 5% of the share capital of the company (Art. 152 of the New CCL). Finally, shareholders of 5% or more of any public company can apply to the SCA then to the competent court to claim that the affairs of the company are or have been conducted to the detriment of any of the shareholders (Art. 164 of the New CCL) and to void any resolutions passed for or against a certain class of shareholders or to bring special benefit to a related party, without consideration of the interests of the PJSC as a whole (Art. 170).

While the audit and nomination and remuneration committees are already addressed by the code, it might be timely to include in the code other types of committees that listed companies can have, notably the risk committee, considering the complexity of the business environment in which local companies operate in terms of geopolitical industry-specific risks, new types of risks, such as money laundering and cybercrime, and others. The OECD review of lessons learned after the global financial crisis has also highlighted the importance of the appointment of a chief risk officer.

To some extent, the revision of the UAE CCL in 2015 has already enhanced the governance of listed companies by imposing additional governance obligations, including those on market-listed PJSCs. The authority for mandating corporate governance rules for PJSCs remains with the SCA, as specified in the CCL. Effectively, most of the changes introduced in the New CCL are aimed at facilitating listings in the UAE, which have been slow in the past few years, with very few

listings of private, family-owned companies or GREs. In particular, the percentage of share capital that must be offered to the public in an IPO was lowered to 30% from 55% previously, which had been the highest such requirement in the region. A number of GCC countries have set minimum IPO requirements at only 25%, which was putting the UAE at a relative competitive disadvantage, considering that the regulator already found it difficult to convince family founding shareholders to list shares on public equity markets. In addition, foreign shareholders can establish majority foreign-owned onshore companies, which is a significant change to the UAE's legal landscape, though these companies are not likely to be listed on the capital markets in the short to medium term. On the other hand, the minimum share capital of any IPO was set at AED 30 million, with authorized capital of less than twice the issued share capital, whereas, previously, the CCL required the authorized capital to be no less than AED 10 million. Another key change was introduced by the new law was the ability of listed companies to issue more than one class of shares (Art. 206 of the New CCL), subject to the federal cabinet issuing a resolution determining the rights, obligations, and conditions of different classes of shares.

Finally, it is important to note that, despite the introduction and partial enforcement of corporate governance provisions by the SCA, there has been limited capital market improvement in recent years. At the end of 2015, the SCA issued a schedule of penalties for listed companies in the case of breaches of certain governance and other requirements. However, the SCA's behaviour in the Arabtec and other governance cases, such as Drake & Scull, has been criticized by some market participants. The fact that the penalty against insider trading activities is minimal encourages violators to pay it, as long as their profits grossly exceed that limit. In addition, the SCA has always been reluctant to share the names of such

violators with the public, to avoid any political dilemma with heavyweight individuals in the UAE. The New CCL explicitly notes that the board of directors and executives of the relevant private joint stock company or PJSC shall be responsible for compliance with the applicable corporate governance framework and failure to do so can result in a statutory penalty of up to AED 10 million (Arts. 6 and 7 of the New CCL). Although this provision has not attracted attention in the UAE corporate community, it is an important stipulation protecting shareholder rights in the UAE, especially in private companies, where shareholder abuses can be more prevalent.

3.3 Importance of Good Governance in the UAE: A SWOT analysis

This section conducts a SWOT analysis of corporate governance in the UAE to establish the foundation for the importance of corporate governance for the country. Remote variables to assess the opportunities/threats of the formation and practice of sound corporate governance practices will cover economic development, the international environment, oil prices, capital market developments, the legal framework, and government policies. On the other hand, the internal environment variables examined to explore areas of strength and weakness for the corporate governance environment in the UAE include firm ownership structure (family, government, and foreign), corporate culture, financial performance, and disclosure practices. The fact that, until recently, UAE companies did not particularly need to raise capital from the equity market has certainly not facilitated the development of stock exchanges in the country.

This dissertation was motivated by the belief that good corporate governance is important for the UAE's economy in general and the development of its financial

sector in particular. The growth of the UAE's economy is underpinned in many ways by the success of its financial services sector and, as a result, economic development strategies at the federal and emirate levels. For example, the Abu Dhabi Economic Vision defined by the Executive Council includes the development of the financial services sector and, notably, the capital markets as a key policy objective. Economic growth represents an opportunity for the promotion and practice of sound corporate governance practices as a cornerstone of any economic development.

Studies demonstrate that good governance helps stimulate financial sector development and economic growth. According to Brick, Palmon, and Wald (2006), corporate governance has been considered to have significant implications towards economic growth prospects because proper practices of corporate governance lower investor risk, attract capital investments, and improve firm performance. Improving the standards of governance is important at this stage of the UAE's economic trajectory for a number of reasons, including the country's recent upgrade to emerging market status by the MSCI, which has resulted in an inflow of mostly passive investment by foreign institutional investors. Foreign institutional investors, often advised by proxy voting agencies, pay close attention to the quality of governance processes and practices in the companies they invest in and, indeed, recent years have witnessed a rise in engagement by institutional investors worldwide. The international recognition of the UAE's market development provides another opportunity for the enactment and implementation of sound corporate governance rules and practices.

The recent volatility in oil prices has created a new fiscal reality in the GCC countries and further underscored the need for private sector investment, including

foreign investment. This has put the governance practices of listed companies in the UAE, as well as others in which foreign investors may be interested in investing, further in the spotlight. Studies show that good governance is especially recognized in emerging markets, where, on average, the quality of practices and institutions tends to be lower than in developed markets. According to this logic, UAE-listed companies stand to benefit from this opportunity, especially if they adopt practices that are above those mandated by the SCA. In addition, there is also a need for best practices to evolve as more developments occur in the UAE and in the global arena. The UAE has been trying to provide efficient corporate governance through guaranteeing corporate accountability and improving the quality and reliability of financial information provided to the public, thus enhancing efficiency and integrity in the capital markets (Fich & Shivdasani, 2006). In this regard, the introduction of XBRL has been an important development, positioning the UAE's stock markets as among the most transparent in the region. Better-quality financial and non-financial disclosure will, in turn, improve investor confidence. According to Aomrah (2011), such investor protection can be best achieved through modern financial regulations and laws, such as the corporate governance code, which promotes the transparency and accountability of firm management and protects the rights of shareholders. These regulatory changes provide another opportunity to strengthen corporate governance practices in the UAE.

Further development of corporate governance practices is also needed to keep up with the development of the UAE's capital market and to the finance a range of companies that could be coming to the capital market in coming years. This could include GREs, which might need an infusion of equity or debt; family-owned companies seeking to augment their capital; or smaller growth firms that have not

historically been participating in the capital market in the UAE or elsewhere in the GCC region. The government could decide in the future to further divest their stakes in GREs, which is already happening in Saudi Arabia and other countries in the region as fiscal resources are tightening – yet another opportunity to strengthen the corporate governance culture in the UAE economy. State-owned enterprises, such as banks, should be subject to rigorous corporate governance roles to create a level playing field and improve investor confidence.

On the other hand, family-owned companies could be incentivized to list, following the relaxation of the minimum share requirement for listing. It is estimated that AED 1 trillion of family assets are to transition to the next generation in the next five to 10 years. This succession is where the greatest destruction of value has occurred in the past, with, on average, only 30% of family businesses surviving beyond the third generation (World Economic Forum, 2015). Stronger corporate governance policies could serve as a key opportunity to provide preventative measures to mitigate this risk, which can have major ramifications on employment in the region.

Further needs for equity capital can also be supported by the growing economic activity in the UAE, which will be hosting the World Expo in Dubai in 2020. Expo 2020 will create a platform for the creation of innovative solutions by hundreds of international thinkers in the fields of science, technology, and architecture**.** Expo 2020 is expected to stimulate economic growth and attract foreign direct investment to the entire region**.**

More than 275,000 jobs will be created across the GCC region in the next two years to service Dubai Expo 2020 more than AED 90 billions of income are expected

to be generated between 2014 and 2021, according to the estimates of Dubai's Expo Preparatory Committee.

Furthermore, considering the recent volatility of the capital market from the heights of 2012-2013, it is important for the regulator to build confidence in the capital market, and governance reforms are the key to doing so. Retail and institutional investors need to be reassured that their savings are protected by adequate and sound processes and that, as shareholders, they have the right to receive dividends and participate in company affairs. In this regard, it is important to ensure adequate disclosure for shareholders and to allow them to effectively participate in corporate affairs. The requirement for all listed companies to have an investor relations officer thus indicates important progress.

A number of challenges remain in ensuring that the governance practices of listed companies are in line with those of leading emerging or developed markets. Most of these challenges are related to the concentrated ownership structure of listed companies, which are controlled by either the state or, more commonly, founding family shareholders. This ownership structure has implications for the level of protection of minority shareholders and the quality of disclosure provided by listed companies. For example, very few companies listed on the ADX do not have a blockholder with at least 10% of the shares. The ownership structure of many large businesses in the UAE creates a weakness in the implementation of acceptable corporate governance norms. Ultimately, research results on whether concentrated ownership structure has positive or negative implications on the performance of listed companies have been mixed.

Research finds that the value creation in closely controlled companies outstrips that in companies with widely dispersed ownership. Spizzirri and Fullbrook (2013) study over 400 family-controlled companies in Canada (where over 30% of listed companies are family controlled) and find that Canadian family-controlled issuers outperformed their peers between 1998 and 2012. Moreover, family firms often appear best able to create value for their shareholders when they do not adhere to typical best practices in share structure and independence. Using a large panel data set from Europe, Barontini and Caprio (2006) show that, although family-controlled corporations exhibit greater separation between control and cash flow rights, family control does not hamper firm performance. Valuation and operating performance are significantly higher in founder-controlled corporations and in corporations controlled by descendants who sit on the board as non-executive directors. When a descendant takes the position of CEO, family-controlled companies are no longer statistically distinguishable from non-family ones in terms of valuation and performance. Although such research has never been performed in the UAE, it is plausible to suggest that, in UAE society, characterized by high levels of trust in leading businesses, concentrated ownership can also be positive in terms of value creation, despite the fact that some governance attributes of family-owned companies, such as board independence, are challenging and there is an issue in reconciling the spirit of the SCA requirements with the more formalistic, compliance-oriented spirit of their implementation.

Furthermore, AlAwadhi (2018) investigates the impact of financial strategies adopted in terms of capital structure and cash flow management on the performance of UAE publicly listed firms and documents a negative impact of firm size, government ownership, and leverage on firm performance, as proxied by Tobin’s Q.

A study of Kuwaiti listed firms also concludes that government ownership is associated with a lower Tobin's Q and ROA (Alfaraih, Alanezi, & Almujamed, 2012). Similar results are noted in similar empirical studies in Egypt (Omran, 2007). Such results are very useful for privatization programmes carried out by the government in determining the optimal percentage to sell to private investors (Uddin, Halbouni, & Raj, 2014). In the UAE context, many GREs, both fully and partially state owned, are high performing, because they were established as national champions at the formation of the UAE and continue to be supported by the government. A number of state-owned enterprises in the UAE operating in semi-protected industries are not fully subject to competition either.

Etisalat, with a government controlling stake of 60% by the Emirates Investment Authority, is ranked fourth by Forbes Middle East among the top 500 companies in the Arab world. This major state concentration in Etisalat could be due to strategic reasons, such as providing leadership in an industry through ownership engagement, especially since, for three decades, Etisalat has been monopolizing the UAE telecommunications market. In the GCC region, a number of studies have pointed out that ownership structures with greater concentration in a blockholder, the state, an individual shareholder, or a family endangers minority shareholder rights (Michael, 2008). Furthermore, the various ownership structures in the GCC states favour the expropriation of minority shareholder rights by the dominant shareholder, which could be enhanced by a pyramid structure in firm control and the presence of various categories of shares. In any case, the success of GCC economies is attributed to how ownership is transferred to the private sector from the state, given that this transfer plays a major role in the control and ownership of corporations. At the same time, there is a culture of closed ownership of listed companies and the close

linkages between family and government companies breeds a situation in which it is difficult for boards to be truly independent of their shareholders; that is, a board member elected by a powerful shareholder is often unable to act with the necessary independence of judgement. Such a business culture is prevalent in most GCC countries, with the possible exception of Saudi Arabia.

Research shows that owners exercising control through various control-enhancing devices, such as shares with superior rights and other mechanisms, without making a commensurate capital investment will result in the misallocation of resources, institutional underdevelopment at the macro level, and entrenchment problems at the micro level (Morck, Wolfenzon, & Yeung, 2005). Corporate culture is more likely to constitute a weakness in the cremation and implementation of internationally agreed upon corporate governance principles.

In the UAE market, the corporate culture and close connections between families imply that the creation of fully independent boards is extremely challenging. Historically, corporate or government officials and insiders tend to propose board members with whom they have social linkages, even if these are not direct family ties. In Michael's (2008) opinion, such dilemmas can be best addressed through voluntary or mandatory disclosure to limit insider trading self-interest. This implies that further limits to the powers of non-independent executive board members need to be accompanied by a strengthening of the powers of independent directors and that the criteria for their appointment must be explicit in terms of both negative criteria and positive examples of independence.

Further measures to develop institutional investment also appear warranted, since institutional investment levels in the UAE are low by international standards.

Greater institutional investment in listed companies is often associated with deeper, more liquid markets and, ultimately, with higher valuations and better corporate performance. Using a sample of firms listed on the Kuwait Stock Exchange, Alfaraih, Alanezi, and Almujamed (2012) find a positive relationship between the influence of institutional investors and firm valuations.

Discussions with representatives of the foreign institutional investor community confirm that disclosure practices continue to be one of their preoccupations. The introduction of a corporate governance report and the investor relations function for all listed companies has certainly been beneficial in this regard; however, the quality of annual reports still needs improvement, especially in terms of non-financial disclosure. The quality of corporate governance reports also merits improvement. For instance, according to Hawkamah (2012), annual MENA reports have not adequately established such a linkage between strategy and environmental, social, and governance disclosure. Some companies have started to provide better governance and sustainability disclosure and a few regulators in the region, such as the Omani CMA, now require disclosure on sustainability and corporate social responsibility practices in companies' annual reports.

There are already indications of shifts in terms of sustainability and governance disclosure. Companies such as First Abu Dhabi Bank and Abu Dhabi Commercial Bank, as well as others in the region, for example, SABIC and Zain, are providing better than average disclosures in this regard. Even so, critical information regarding board meetings and remuneration is not always disclosed. According to a survey of MENA companies, very few give any details of the structure of their pay packages, DP World being one of the only exceptions (Hawkamah, 2012). Hence,

poor disclosure practices are yet another weakness of the UAE corporate governance culture. As the UAE attracts greater foreign institutional investments, foreign investors will become more vocal about the quality of corporate governance practices and could engage with companies where high levels of family or government ownership have more generally led to a closed board structure or governance practices. Considering that some of the largest recent IPOs are those of GREs (i.e. Emaar Malls), it is crucial that they exhibit solid governance practices to demonstrate that the UAE government is serious about good governance in the assets that it manages.

The analysis above shows that the external (remote) environment is rich with opportunities for development of sound corporate governance practices. However, the UAE internal environment is plagued with weaknesses that hinder sound and solid corporate governance culture. This puts the governance culture in the UAE in the upper left quadrant of the traditional SWOT diagram. Both regulators and corporate decision makers need to capitalize on opportunities provided by the external environment to overcome internal weaknesses. Awareness campaigns and empirical studies are required to demonstrate the macro and micro benefits of sound governance. Training for both board members and owners can be conducted by national institutions such as the Abu Dhabi Centre for Corporate Governance and the Hawkamah Institute for Corporate Governance of Dubai.

Chapter 4: Corporate Governance Mechanisms and Financial Performance in UAE-Listed Firms

4.1 Introduction

This dissertation follows the theoretical literature and empirical works to test well-established and well-developed hypotheses on the impact of sound corporate governance practices on firm performance. It will add to the literature by testing such hypotheses on United Arab Emirates (UAE) firms in an environment characterized by various specific uniquenesses, such as their tax-free system, concentrated government and family ownership structures, and a robust and very adaptive business environment with a good chance for fast-paced change.

Li et al. (2015) state that the theoretical literature suggests that board independence and ownership concentration are the two most important corporate governance mechanisms affecting firm performance (e.g. Adams, Hermalin, & Weisbach, 2010; Bozec, 2005; Denis & McConnell, 2003; Gillan, 2006). They further assert that an independent board can protect shareholder interests and enhance firm value by monitoring top management and by advising managers in designing and executing corporate strategy. A large controlling blockholder can serve as an effective governance mechanism monitoring managers, but can also extract private benefits of control that potentially reduce firm value, especially in countries with weak shareholder rights (e.g. La Porta et al., 1998).

The importance of addressing board composition and ownership structure is related to the potential for the abuse of minority shareholders raised specifically by these two company ownership characteristics. As mentioned above, UAE-listed companies tend to have concentrated ownership and are often affected by political

ties and family involvement. Consequently, typical governance mechanisms, such as board size and the proportion of outside directors, have yet to be tested for effectiveness in monitoring and in addressing the various agency problems within public firms in the UAE. The aim of this chapter is to test and state the role and impact of board characteristics and ownership structures on listed firms' financial performance in the specific context of the UAE.

4.2 Hypothesis Development

The theoretical approach of the empirical research in this dissertation is depicted in the literature review above. As demonstrated in this section, the focus is on two corporate governance dimensions, specifically, board composition and ownership structure. The relevance of each of these dimensions to the UAE's listed companies is further explained by developing and testing the hypotheses of this work. A set of control variables, such as firm age, leverage, and size, is included. Fixed effect tests will include industry type and time variables. Random effects panel regressions will also be utilized.

4.2.1 Board Composition

This section on board composition will include a first set of hypotheses, namely, it will encompass testing the role of board size, board independence, chief executive officer (CEO) duality, and the representation of women on boards. Mechanisms such as the leadership structure of the board – dual or independent – are indicative of the exercise of power and the extent of the managerial domination of UAE owners who usually act as board members. Therefore, the choice of leadership structure and its interplay with external monitoring reflect the desire of UAE owners

to exert good governance practices and thus play a significant role in mitigating agency problems.

The composition of the board of directors is considered a key mechanism in corporate governance studies, since it determines how corporate strategy is approved. Board structure is considered by Aivazian et al. (2003) to be an influential mechanism of corporate governance that should improve performance. Studies have shown that the mechanisms of corporate governance influence company performance (Agnew, Balduzzi, & Sundén, 2003; Niederle & Vesterlund, 2007). Daily et al. (2003) argue that there is no specific set of corporate governance used globally in terms of board composition, since such principles depend entirely on the political, economic, or legal environment and on business activities.

Generally, board members are elected by shareholders in the annual general assembly and their duties vary depending on the complexity and nature of the organization. However, the literature has examined two different systems of board structure. Most Anglo-Saxon countries have a single-tier board appointed by the shareholders and with the responsibility of hiring and firing the CEO, whereas in other countries, such as Germany, the legal tradition involves two-tier boards, including a managerial and a supervisory board. This structure will not be considered in this study, considering that the UAE does not have two-tier boards.

The composition and structure of the board of directors differs from one country to another, depending on various factors, such as the legal and regulatory framework, capital market structure, economy, and culture. However, a few variables are accounted for in most board- related studies and are therefore well recognized as characterizing board structure. Ujunwa (2012) examines the board characteristics and

financial performance of Nigerian listed firms, using traditional features such as the size of the board, CEO duality, and the independence of directors. The author also uses other organizational attributes, such as gender and ethnic diversity, demographics, leadership, and competence variables, as presented by the qualifications and experience of the directors, as well as their relevant industry experience.

In theory, boards are established to meet the statutory requirements of state law for incorporations and for the governance of the stock and commodity markets. In real-life scenarios, boards are considered solutions for shortcomings in the organizational control system, such as the internal conflicts of interest between management and other stakeholders. Such a function requires supervising management and contributing in the corporate strategic planning through a number of the board's committees. In addition, it involves the responsibility of setting executive compensation and the recruitment and dismissal of managers. If the CEO of the firm is sufficiently powerful and dominating, then the role of the board to fire and hire management becomes very challenging.

The theoretical corporate governance literature (e.g. Fama & Jensen, 1983; Jensen & Meckling, 1976) argues that one of the main reasons companies require a board of directors is conflicts of interest between managers and owners (or shareholders). Such conflicts of interest arise because of the divergence of interests between owners and managers. Whereas owners – shareholders – are typically interested in the maximization of their value (the price of stock shares), managers are interested in consuming perquisites, exerting less effort, and taking on less risk. This divergence of interests is a source of costs, called the agency costs of equity (Jensen

& Meckling, 1976). Effective boards are therefore crucial in reducing these agency costs.

However, if the CEO's performance is outstanding, then the independence of the board becomes moot (Hermalin & Weisbach, 2003). In the history of the corporate world, it was only when an organization faced catastrophe that CEOs were fired as immediate corrective action to resolve the problem or, in another form, as a scapegoat. Many incidents took place in the US corporate market in the 1980s and 1990s where substantial failures in internal control systems led to losses and destroyed corporate value and shareholder wealth. For example, Kodak, IBM, and General Motors all witnessed crises and responded by firing their CEOs. In the absence of adequate control mechanisms enforced by the board to govern its management, threats of loss in value and market share could increase (Jensen, 1993).

The literature on boards argues that, for boards to fulfil their functions effectively, they should have a high level of independence and diversity. This, in return, should result in enhanced firm performance and risk management (Chen et al., 2005; Gao & Ma, 2002; Hong et al., 2006). Moreover, some have reported that diversity on the board of directors helps understand the marketplace (Linck et al., 2007), enhances innovation and creativity (McIntyre et al., 2007), results in better problem solving (Pablo, Valentin, & Felix, 2005), promotes effectiveness of leadership in companies (Panasian, Prevost, & Bhabra, 2003), and builds effective relationships (Smith, Smith, & Verner, 2005). In summary, the above arguments are in favour of diversity, on the basis that company performance and outputs increase as diversity increases.

While the issue of board effectiveness in boosting a company's performance and risk profile has been vigorously debated in many countries, it has not received its due attention in the UAE. This creates an important gap in the literature, since the UAE has been growing quickly and aspires to have a modern economic and corporate sector. This research thus tries to fill this gap by investigating the state of boards of directors and selective corporate governance mechanisms in UAE-listed companies.

Board structure as a mechanism of corporate governance has also been studied in relation to company performance and risk taking. From the perspective of agency theory, outside non-executive directors are in a better position to improve performance, since they are independent and, hence, unaffected by firm management. Similarly, stewardship theory posits that managers who become good stewards will work hard for the corporation to achieve high shareholder returns and corporate profits. Empirical evidence from Belkhir (2009a) on the connection between board structure and firm risk and performance shows that companies with a higher percentage of outside directors tend to have a greater return on equity (ROE) compared to company boards with more inside directors. Becher et al. (2005) also provide evidence of a positive relation between board structure and reduction in firm risk and increased performance.

This section examines the extent to which UAE companies have made progress in modernizing their corporate governance board mechanisms and assesses the effect of such mechanisms on firm financial performance. Special attention will be dedicated to board composition and, in particular, testing the effects of board size, board independence, and CEO duality. Other board characteristics will be used to

test the robustness of the results, including the representation of women on boards and executive directors' board membership.

4.2.1.1 Board Size

The size of the boards of listed companies continues to vary and, unlike the separation of the chairperson and CEO roles, there appears to be no global consensus regarding optimal board size. Countries as diverse as Indonesia, Switzerland, and Australia stipulate no specific requirements for the minimum or maximum size for boards of directors. In other countries, company law specifies the minimum and maximum size of the board and corporate governance codes provide further recommendations in this regard. In France, for instance, company boards can include as few as three members and as many as 18. In still other countries, while the law or code establishes a minimum board size, it does not prescribe a maximum size, given the complexity of various business models and firms sizes.

A recent survey by the Organisation for Economic Co-operation and Development (OECD) of its member countries and major emerging markets finds that the smallest board size is three to five members and the maximum ranges from 11 to 21 members (OECD, 2015), indicating a lack of convergence in this area. In the Middle East and North Africa (MENA) region, most countries set the minimum number of board members at three and the maximum at 11 to 15. Most of the relevant provisions specifying board size are noted in the company laws, as opposed to the corporate governance code. In the UAE, the minimum size according to the new Commercial Companies Law is three members and the maximum is 11, reduced from 15 in the 1984 law, which points to the fact that the regulator wants to see

smaller, more cohesive boards. Bahrain is currently the only jurisdiction to allow boards of 15 members. All other MENA countries limit board sizes more rigorously.

A key question is whether such board sizes are optimal in terms of corporate performance and, ultimately, in terms of corporate performance in the UAE. Larger boards can better represent a variety of shareholders, especially since UAE-listed companies receive sizeable foreign direct investment and can have a diversity of investor views represented on the board. On the other hand, to the extent that the UAE Commercial Companies Law mandates that 75% of the board be comprised of Emirati citizens and since it is uncommon to openly challenge other board members in Gulf Cooperation Council (GCC) culture, having a larger board might not be productive.

A number of academic studies relate board size to corporate performance, though not all of them conclusively. The influence of board size and board composition on firm valuation and performance has been an issue in the financial as well as the organizational economics literature. Most of the research has focused on the optimal size and structure of corporate boards in the US market as a value-creating mechanism, because a board structure approaching the optimum is assumed to reduce agency costs caused by the separation of ownership and control. Corporate boards are endogenously determined institutions and board size depends on a number of observable firm characteristics, such as size, ownership distribution, and level of diversification. Board size is also likely to depend on a number of unobserved factors, including factors potentially correlated with firm performance. This makes a causal interpretation of the observed correlation between board size and performance

highly contestable, even when it is possible to control for observable determinants of board size.

Agency theory suggests that increased managerial monitoring associated with larger boards can have a positive influence on corporate disclosures, including corporate governance practices and performance (Samaha et al., 2012). Some, however, suggest that larger boards are often characterized by poor coordination and communication and monitoring problems (Jensen, 1993; Ntim et al., 2012a, 2012b), which can negatively impact corporate governance disclosure and financial performance. A number of observations emerge from the literature. Larger boards could be difficult to manage and hamper consensual decision making. On the other hand, board diversity has been shown to reduce the phenomenon of groupthink. This finding is in line with resource dependence theory, which indicates that larger boards are associated with greater diversity in terms of expertise (Branco & Rodrigues, 2006; Chen & Roberts, 2010), experience, and stakeholder (stakeholder theory) representation (Ntim & Soobaroyen, 2013; Reverte, 2009), which can enhance corporate legitimacy (legitimacy theory) and reputation (Ashforth & Gibbs, 1990.

Empirical studies of large publicly traded firms in the US have generally shown a negative relation between board size and performance, although with a number of caveats. The first empirical study of the effects of board size on performance was conducted by Yermack (1996), who analyses a panel of 452 US firms from 1984 to 1991 and finds a negative and significant effect on Tobin's Q.[17] Belkhir (2009a) finds a positive correlation between board size and performance and empirically shows that banks with smaller numbers of directors do not outperform

[17] The study also finds that smaller boards fire CEOs more frequently.

their counterparts with larger boards. Similarly, using a sample of over 2,700 UK firms, Guest (2009) finds that board size has a strong negative impact on profitability, Tobin's Q, and share returns. Hermalin and Weisbach (2003) find out that the larger the board's size, the less effective it becomes. This causal relation arises when the board becomes too large, agency problems are increasing, and directors turn out to be figureheads rather than part of the management process.

Carney (2005) argues that family control is associated with three types of propensity: personalism, parsimony, and particularism. According to Tabalujan (2002), these propensities will lead to side effects such as difficulty disentangling corporate from family interests, which leads to the threat of the expropriation of company assets by family members. Further, family members may feel more accountable to the family than to shareholders or company officers. Another aspect is that family members could undermine formal lines of authority and supervision. Larger boards can dilute these effects and consensus will have to be forged between key family factions (Topak, 2011), which could make it easier for professional managers to exert their influence (Dalton et al., 1999).

Overall, a negative relation between board size and corporate performance has been confirmed by a number other studies, including those of Conyon and Peck (1998) in a sample of publicly traded firms in the United Kingdom, France, the Netherlands, Denmark, and Italy; Mak and Kusnadi (2005) in firms in Malaysia and Singapore; Loderer and Peyer (2002) in firms in Switzerland; and De Andres et al. (2005) in a sample of firms from 10 OECD countries. McIntyre, Murphy, and Mitchell (2007) also report that larger boards negatively affect company growth. These outcomes indicate an inverse association between board size and firm value,

showing that large boards can effectively become dysfunctional as responsibility is dispersed too widely and focused discussion becomes difficult. For the reasons explored above, agency theory might not be optimally suited to explore the dynamics of UAE-listed firms. We therefore review a cross section of studies from diverse jurisdictions to understand the direction of causation, if any.

Jensen (1993), and Lipton and Lorsh (1992) argue that large corporate boards could be less efficient due to difficulties in solving the agency problem among all the members of the board. When boards become large, agency problems such as director free riding can increase within the board. Additionally, given the growing requirements on board diversity, where a number of countries have moved to introduce gender quotas or requirements regarding the participation of minorities, larger boards can also be increasingly diverse and hence face challenges in terms of fostering a cohesive approach to corporate problems. In other jurisdictions with less dispersed ownership, the causality from larger boards to less effective corporate performance appears weaker. For instance, Bermig and Frick (2010) examine all German firms listed on the DAX, MDAX, and SDAX from 1998 to 2007 and find no consistent effect of either board size or board composition on firm valuation or performance. Controlling for a large number of other (potential) determinants of firm performance, they estimate the joint as well as separate influences of board size, union representatives, work council representatives, independent worker representatives, bank representatives, and former managing board members on firm performance. Martin (2010) use a cross section of European firms and document a negative effect of board size on performance for all five European countries examined when performance is measured as the ROE. This inverse relation is more difficult to isolate using market-based measures of performance. The results above

highlight the mixed evidence with respect to the impact of board size on corporate performance, even in Europe.

Research shows that larger boards can be beneficial not only due to their impact on performance but also due to their impact on variability. Cheng's (2008) study on board size does not focus on the board's impact on market or accounting performance but, rather, on its variability. The author provides empirical evidence that firms with larger boards exhibit lower variability of corporate performance. The results indicate that board size is negatively associated with the variability of monthly stock returns, the annual accounting return on assets (ROA), Tobin's Q, accounting accruals, extraordinary items, analyst forecast inaccuracy, research and development (R&D) spending, the level of R&D expenditures, and the frequency of acquisition and restructuring activities. These results are consistent with the view that it takes more compromises for a larger board to reach consensus and, consequently, the decisions of larger boards are less extreme, leading to less variability in corporate performance.

On the other hand, in terms of disclosure in particular, a number of empirical studies report a positive connection between board size and voluntary disclosure (Barako et al., 2006; Hooghiemstra, 2011; Hussainey & Al-Najjar, 2012; Mallin & Ow-Yong, 2012; Ntim et al., 2012a, 2012b). For example, both Rouf (2011) and Samaha et al. (2012) find that board size is positively related to voluntary disclosure in a sample of 120 and 100 Bangladeshi and Egyptian listed corporations, respectively. In addition, Al-Janadi et al. (2013) report a positive link between board size and voluntary disclosure in a sample of 87 Saudi listed firms. Similarly, employing a sample of 100 South African listed firms from 2002 to 2009, Ntim and

Soobaroyen (2013) report that board size has a positive effect on voluntary corporate social responsibility and risk disclosure, respectively.

As mentioned, the results of research on the impact of board size on corporate performance are not consistent. For instance, Adams and Mehran (2005) which focus on the banking sector and find that increases in board size due to the addition of directors who also hold subsidiary directorships appear to add value as the complexity of the holding company increases. The authors conclude that banks can have unique features that suggest caution in applying regulations motivated by research on the governance of non-financial firms to banking firms. The financial services sector indeed seems to stand out from this literature, in the sense that larger boards tend to be more effective and, hence, have a performance-enhancing impact. Using the ROA to assess firm performance and its relation with board size, Linck et al. (2007) finds that board size is positively associated with ROA among financial institutions. Moreover, Belkhir's (2009a) research on board size and performance in the banking sector finds that larger boards contribute to better performance.

Indeed, a growing body of research demonstrates that the impact of board size on corporate value is context specific. In particular, a number of studies (e.g. Boone et al., 2007; Coles et al., 2008; Linck et al., 2007) argue quite intuitively that larger and more complex firms will require more advice from their boards and, thus, have larger boards. Conversely, smaller, less complex firms can operate efficiently with smaller boards. In line with this observation and based on a review of the Danish experience, Bennedsen et al. (2008) finds that boards of small and medium-sized enterprises with six or more members have a small adverse effect on performance.

Given the available evidence and considering the UAE context, where board size, including its upper limit, is set by law, one can hypothesize that larger-than-average boards can lead to individual board members' lack of responsibility. This is particularly the case, because individual board member responsibilities in the UAE are somewhat loosely defined and there have been very few examples of legal action where individual board members' responsibilities were engaged legally. Based on the above discussion, we state our first hypothesis as follows.

Hypothesis 1: A larger than average board size has a negative impact on firm performance.

4.2.1.2 Board Independence

Board independence is a critical tenet of good corporate governance and investor protection. International corporate governance standards, whether the OECD Principles of Corporate Governance or the Basel Committee Corporate Governance Principles for Banks, attach great importance to board independence, which is important in all types of companies, listed or unlisted, from those with dispersed ownership to those with concentrated ownership. Even in discussing the governance of government-related entities (GREs), the importance of independent board members is increasingly recognized.

Regarding the attributes of a good board, the OECD Principles of Corporate Governance provide a number of useful general benchmarks concerning an effective board of directors, notably in terms of independence. The OECD Principles of Corporate Governance, discussed earlier in this work, provide guidelines on what constitutes independence, noting that in order to exercise its duties of monitoring managerial performance, preventing conflicts of interest and balancing competing

demands on the corporation, it is essential that the board is able to exercise objective judgment. In the first instance, this will mean independence and objectivity with respect to management with important implications for the composition and structure of the board. Board independence in these circumstances usually requires that a sufficient number of board members will need to be independent of management.

Independent board members can contribute significantly to the board's decision making. They can bring an objective side to the evaluation of the performance of the board and management. In addition, they can play an important role in areas where the interests of management, the company, and its shareholders can diverge, such as executive remuneration, succession planning, changes of corporate control, takeover defences, large acquisitions, and the audit function. For independent board members to play this key role, boards must declare whom they consider to be independent and the criteria for this judgement. Some jurisdictions also require separate periodic meetings of independent directors.

The OECD Principles stipulate that 'investors require information on individual board members and key executives in order to evaluate their experience and qualifications and assess any potential conflicts of interest that might affect their judgement'. For board members, the information should include their qualifications, their share of ownership in the company, membership on other boards, other executive positions, and whether they are considered by the board to be an independent member. It is important to disclose membership on other boards, not only because it is an indication of experience and possible time pressures, but also because it can reveal potential conflicts of interest and reveal the degree to which boards interlock (OECD, 2015).

Global corporate governance trends have seen a degree of convergence with respect to board independence requirements for listed companies, reflecting the fact that regulators and shareholders desire stronger independent oversight of corporate affairs. The OECD Principles of Corporate Governance recommend that the board be capable of objective and independent judgement about corporate affairs, and national laws, codes, and regulations reflect this notion through various corporate governance mechanisms. Independent board members can bring about an objective view to the evaluation of the performance of the board and management and can play an important role in areas where the interests of management, the company, and its shareholders can diverge (e.g. succession planning, changes of corporate control, and acquisitions). The variety of ownership and board structures and practices in different countries necessitate different approaches to the issue of board objectivity. A key way to ensure board objectivity is to require the participation of a sufficient number of non-executive directors on corporate boards. In addition, independence of the controlling shareholders or another controlling body needs to be emphasized, especially if minority shareholder rights are weak.[18]

When a particular party (executives, creditors, other related parties) is in a position to influence the company, regulators and investors should pay special attention to ensure the objective judgement of the board. A key way to ensure board independence is for regulators to require or recommend the appointment of independent board members and for companies to follow suit. Australia, the United Kingdom, and Spain, among others, require or recommend that the majority of the

[18] This has led to both codes and the law in most jurisdictions calling for board members to be independent of dominant shareholders, independence extending to not being the shareholders' representative or not having close business ties with them.

board be comprised of independent board members. None of the Arab countries currently require more than a third of the board to be comprised of independent directors.[19]

Although the corporate governance codes and recommendations of the Gulf countries share the fact that a third of the board should be comprised of independent board members, their definitions of independence vary substantially. While there is global convergence regarding the importance of board independence, the approaches adopted by regulators worldwide vary in terms of how independence is defined. In defining independence for members of the board, some national principles of corporate governance specify very detailed presumptions for non-independence that are frequently reflected in the listing requirements. While establishing necessary conditions, such negative criteria defining when an individual is not regarded as independent can be usefully complemented by positive examples of qualities that will increase the probability of effective independence.

In defining the independence of board members, some regulators have specified rather detailed negative criteria for non-independence, whereas others have set out qualities that are presumed to increase the probability of effective independence. Independent directors are often considered 1) not to be a member or immediate family member of a member of company management, 2) not to be an employee of the company or a company in the group, 3) not to receive compensation from the company or its group other than directorship fees, 4) not to have material business relations with the company or its group, 5) not to have been an employee of

[19] For instance, the Moroccan corporate governance code recommends that a third of the board be comprised of non-executive but not necessarily independent directors.

the external auditor of the company or of a company in the group, 6) not to exceed the maximum tenure as a board member, and 7) not to be or represent a significant shareholder (International Organisation of Securities Commissions, 2007). In the UAE, an independent director is a non-executive director who does not have any relationship with the company, its parent, or an affiliated company and the same must be true of the director's spouse and relatives.[20] The SCA's regulations also state conditions when independence is considered compromised, such as when the director is related to the company's major shareholders or if the director holds an executive post in another company whose executives are also members of the board of directors. The requirements and the definition of independence of the SCA are generally in line with regional standards, although less detailed than in some countries, such as Oman, the first country in the region to introduce corporate governance rules for listed companies.

Other regulators in the region provide even more detailed requirements on independence. For instance, in Oman, the newly revised corporate governance code provides a long definition of what constitutes a breach of independence. The full details of the definition are in Box 5, which highlights the most comprehensive definition of independence in the GCC region. However, even these comprehensive definitions do not guarantee that a director appointed in accordance with these criteria will be fully independent, considering that the culture of the GCC countries, especially outside of Saudi Arabia, which is a larger economy, facilitates close personal linkages between members of the business community and the family unit.

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[20] The degree of relation is not specified in the code of the Securities and Commodities Authority (SCA).

Box 5: Definition of an independent director in Oman

Independence in this context means two things: 1) pecuniary or financial independence as set out in the terms and conditions below and 2) independence of opinions engendered and nurtured by experience, expertise, proficiency, or knowhow in the fields of the company's business, its industry, or a related industry. Such independence of thought is aimed to enable the independent director in supporting the board's decision making process and the company's directorship in ways that will serve the company's purposes and objectives.

The independent director must be a) honest and morally upright and b) not related materially, economically or financially to the company, any of its subsidiaries or associates, or entities held or owned by the company, to the extent permitted by the provisions below. A director is not deemed independent in any of the following cases:

(a) Holding ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies.

(b) Representing a juristic person who holds ten per cent (10%) or more of the company shares, its parent company, or any of its subsidiary or associate companies.

(c) Had been, during the two years preceding candidacy or nomination to the board, a senior executive of the company, its parent company or any of its subsidiary or associate companies.

(d) Being a first degree relative of any of the directors of the company, its parent company or any of its subsidiary or associate companies.

(e) Being a first degree relative of any of the senior executives of the company, its parent company or any of its subsidiary or associate companies.

(f) Being a director of the parent company or any of the subsidiary or associate companies of the company being nominated for its board membership.

(g) Being, during the two years preceding candidacy or nomination to the board, an employee of any of parties contractually engaged with the company (including external auditors, major suppliers or civil society organizations ('CSO'), where the latter received support in excess of 25 per cent of the annual budget of such CSOs).

(h) Being, during the two years preceding candidacy or nomination to the board, an employee of the parent company or any of its subsidiary or associate companies.

(i) Holding about 20% of the shares of any of the above-mentioned parties during the two years preceding candidacy or nomination to the board.

The independent director has to notify the board as soon as a change in circumstances occurs in which his/her independent status or condition is forfeited, within a period of not more than thirty (30) days.

In all cases, the independent director has to submit an annual statement at the end of the financial year of the company, indicating whether or not a change in circumstances has occurred which might impair his/her independence.

Source: Oman Corporate Governance Code (2015)

Therefore, it is a veritable challenge for GCC regulators to ensure that a given board member is truly independent. Partly to address this obstacle, the Omani Capital Market Authority requires that all board members be non-executive directors to reduce the probability of close ties to the company. The fact that board members are often also shareholders implies that they might not represent the interests of all shareholders but, instead, only their own. This is a challenge that needs to be addressed in the company laws, considering that this is where the requirement that board members also be shareholders typically originates.

Although, in principle, board independence is an important corporate governance characteristic, empirical research is not clear on the exact percentage of the board that should be independent and whether greater independence positively impacts corporate performance. A key argument promoting board independence is that independent board members add particular value in overseeing corporate affairs and in protecting the interests of shareholders. In the context of the concentrated ownership model prevalent in the GCC region and in the UAE in particular, independent board members are especially critical in protecting the interests of minority investors. Therefore, some jurisdictions even require the involvement of independent board members in specific committees, such as the audit committee, and in specific decisions, such as the approval of related-party transactions. At the same time, one should recognize that true board independence, including from key shareholders and management, is difficult to attain in the context of close-knit GCC societies. It also difficult to maintain, since many board members sit on boards for more than one mandate or have multiple board mandates in GREs, which introduces parallel interests. Indeed, it is common in the UAE for board members to have multiple board mandates with GREs, which makes them not truly independent due to

memberships in which the state has an interest, since these companies operate in similar or related sectors.

It is worth considering whether increasing board independence beyond the currently required 30% would actually improve corporate performance. As discussed, the SCA's current requirements stipulate that a third of the board be independent and that some committees should include and be chaired by independent board members to address any potential conflicts of interest. Increasing board independence beyond current requirements could have a trade-off with board experience, since independent board members would have less experience in the specific sector and would also have less experience overseeing the affairs of the specific company. Board experience contributes to the ability of board members to ask pertinent questions and to contribute meaningfully to board deliberations. An inexperienced board member will not bring the same value to the board as experienced ones who can provide relevant insights at board meetings. Agency theory suggests that outside directors are more likely to defend the interests of outside shareholders. Fama and Jensen (1983) argue that outside directors have an incentive to act as monitors of management because they want to protect their reputations as effective and independent decision makers. The authors also suggest that a diversified mixture of dependent and independent directors in the board's composition can overcome the agency problem between managers and owners.

Nonetheless, there is a debate regarding the governing effect of board composition on firm performance. It is argued that board composition, in terms of the number of outside versus inside directors, results in better performance through better monitoring. This argument is mainly based on agency theory (Fama, 1980). On

the other hand, some argue that, based on stewardship theory, executive directors have a positive effect on corporate R&D costs and improve performance, based on improved strategic innovation.

The Cadbury Committee, charged with elaborating perhaps the most progressive corporate governance code in the world, has suggested a number of recommendations to overcome the issue of independence within the board. These recommendations include that the chair of the board be independent, that the procedure of selecting non-executive directors be formalized, and that functioning committees such as the audit and remuneration committees consist mainly of non-executive directors. These remedies could improve the effectiveness of the board but are unlikely to solve the problem completely.

Research substantiates the value of independent board members, particularly in situations in which conflicts of interest can arise. Despite the fact that executive directors tend to be involved more in the operations of the company and, hence, have a better understanding of the company when compared with independent board members, a number of academic studies confirm that independent board members have a positive impact on corporate performance. For instance, Weisbach (1988) finds that outsider-dominated boards are more likely than insider-dominated boards to replace the CEO in response to poor performance. Brewer, Jackson, and Jagtiani (2000) find that bid premiums offered for target banks increase with the proportion of independent outside directors. In the Australian context, Masulis et al. (2012) shows that independent boards are more likely to remove poorly performing CEOs from office, leading to improved shareholder value. A recent study focusing on China finds that more independent boards positively affect board performance by

constraining self-dealing and improving investment efficiency (Liu et al., 2015). Moreover, García et al. (2009) argue that independent board members can be of great help in monitoring management, and are more effective compared to inside and affiliated directors. A wealth of studies show that independent boards have a positive impact on company financial performance (e.g. Fich & Shivdasani, 2006; Fields, Fraser, & Subrahmanyam, 2010; Finkelstein & Mooney, 2003).

Other studies, however, provide a more nuanced conclusion regarding the effect of board independence on firm performance. Specifically, several find evidence of a negative effect of more independent boards on firm performance. A few studies have questioned this correlation, arguing, for example, that executive board members make better strategic decisions due to their knowledge of the company and are better incentivized to make decisions in line with the long-term interests of the company through share ownership (e.g. Bhagat & Black, 2000). Bhagat and Black (2000) were the first to conduct a large-sample, long-horizon study of whether board independence (proxied by the proportion of independent directors minus the proportion of inside directors) is correlated with the long-term performance of large US firms. The authors find evidence that firms suffering from low profitability respond by increasing the independence of their board of directors, but no evidence that this strategy works, that is, that firms with more independent boards improve their profitability. Their results do not support the conventional wisdom that greater board independence improves firm performance (Bhagat & Black, 2000).

Another study, by Faleye et al. (2011), finds that firms with independent boards exhibit greater CEO turnover sensitivity to firm performance, lower excess

executive compensation, and reduced earnings management, noting, however, that this comes at the cost of weaker strategic advising and greater managerial myopia, worse acquisition performance, and diminished innovation. De Andres et al. (2005) conclude that a high proportion of independent directors will ensure that the board acts in the interests of shareholders, although they acknowledge that this can negatively impact the company's debt levels. Research by Koerniadi and Tourani-Rad (2012) on board independence in New Zealand examines the effect of independent directors on firm value using both market-based performance measures (Tobin's Q and economic value added) and accounting-based ratios (ROA and ROE). The authors find that, instead of adding value, independent directors in New Zealand negatively affect firm value. In particular, their study suggests that, consistent with stewardship theory, independent directors have a positive effect on firm value only when they are in the minority Another study, by Reeb and Upadhyay (2010, on subordinate board structures in a sample of Standard & Poor's (S&P) 500 firms concludes that boards with a higher portion of outside directors suffer from coordination and communication problems and thereby impair board effectiveness, on the one hand, and board decisions, on the other hand, limiting the functionality of this corporate governance device.

Yermack (1996) also reports evidence that a higher percentage of independent directors leads to worse performance. In addition, Klein (2002) suggests that a high percentage of outside directors will have the same negative effect. On the other hand, studies such as that of Dalton et al. (1999) show no evidence of a relation between the proportion of non-executive directors and firm performance. Moreover, a negative relation is revealed between the size of the board and firm performance (Eisenberg et al., 1998). Larger boards seems to be less efficient due to the slow pace

of decision making and difficulty in both arranging board meetings and reaching a consensus.

Most studies on board independence tend to focus on developed markets. Ararat et al. (2010), a team of Turkish researchers, classify board members as independent or affiliated directors and report three main results: i) board independence is unrelated to equity issues, ii) independent directors are unlikely to curb the extent of related-party transactions, and iii) the presence of independent board members and firm performance are negatively related. This finding is, to some extent, surprising, given that it not only suggests that greater board independence does not enhance financial performance but also does not even help thwart risky financial transactions, such as related-party transactions.

Few studies on the impact of the increasing board independence of GCC-listed firms have been attempted. One study of GCC countries reveals a significant relation between corporate governance and bank profitability, with both board independence and board size having negative and significant effects on the ROA in local banks. In addition, whereas bank age and board committees have positive effects on profit margins, ownership concentration has a negative effect on this measure of profitability (Al Baidhani, 2014). In the UAE case, since the laws allow more independent members to be appointed from outside the UAE, we expect greater independence and diversity to contribute positively to firm performance. Therefore, we formulate our second hypothesis as follows.

Hypothesis 2: There is a positive relation between the presence of independent members and firm performance.

4.2.1.3 CEO Duality

Segregation of the CEO and chair posts is now a globally recognized good corporate governance practice and is recommended by the OECD Principles of Corporate Governance. The OECD principles suggest that, in countries with single-tier board systems, such as the UAE, the objectivity of the board and its independence from management could be strengthened by the separation of the role of the CEO and chair. This separation of the two posts is generally regarded as efficient use of board directorship, since it can help achieve an appropriate balance of power, increase accountability, and improve the board's capacity for decision making independent of management. The principles further recommend the designation of a lead director with sufficient authority to lead the board in cases where management has clear conflicts. Such a mechanism can also help ensure high-quality governance of the enterprise and effective functioning of the board. The chair or lead director can, in some countries, be supported by a company secretary. The UAE and the MENA region have not yet adopted the practice of appointing a lead independent director and, hence, this research considers the separation of the chair and CEO posts crucial.

One-third of OECD member countries have a one-tier board system and either require or encourage the separation of the chairperson and CEO roles. Four countries require and eight countries recommend the separation of the two posts in comply or explain codes (OECD, 2015). India and Singapore introduced an incentive mechanism to separate the two posts by requiring a higher minimum ratio of independent directors on boards where the chairperson is also the CEO. Such

mechanisms would be interesting to consider in the GCC countries, but the policy makers have not yet moved in this direction.

The separation of the CEO and chair is underpinned by the concern that an executive chair would lack the necessary independence of mind to objectively oversee corporate affairs and could also be conflicted in a number of matters. At the heart of this requirement is the growth of the dispersed ownership model, whereby the interests of shareholders and management can diverge, as a result of which management should be overseen by boards capable of independent judgement. Since the dispersed ownership model is not dominant globally, it can be argued that this separation is no longer warranted by the current ownership landscape.

Although the OECD Corporate Governance Principles recommend the separation of the two positions (on unitary boards), this consensus has taken some time to emerge, considering that the reality of separating these two posts is complicated and that arguments have been made that the unification of the two posts allows for more agile decision making. Indeed, while a number of jurisdictions have mandated or recommended the separation of these two posts on unitary boards, a number of regulators remain silent on the issue. Even in countries such as France, where the corporate governance code (AFEP–MEDEF) requires the segregation of the two posts, not all companies have implemented this recommendation yet (French Institute of Directors, 2015). Proxy advisors such as Institutional Shareholder Services, which advise the largest institutional investors, recommend the separation of the two posts. However, even in controlled companies, where the governance concerns raised by agency theory could be less applicable, the separation of the chair and CEO posts might still be advisable, given that an executive chair appointed by

the controlling blockholder might not represent the interests of all shareholders. Furthermore, under all circumstances, an executive chairperson can lack the necessary independence to oversee company affairs and could dominate the board. In addition, the chair can become conflicted in terms of some functions of the board, such as the approval of executive remuneration.

The separation of the two posts is recommended in the codes of all the GCC countries, including the corporate governance regulations issued by the SCA (paragraph b of article 4 of Decision No. (7 R.M) of 2016). Regulators in the UAE (both the SCA and the Dubai Financial Services Authority) advocate the clear separation of work and responsibilities between the company's CEO and its non-executive board chair. Not all regulators in the region have this requirement, however. For example, in Egypt, the separation of the two posts is voluntary, because the corporate governance code is voluntary. In Lebanon, also, banks commonly have a single person occupying the roles of chairperson and CEO.

Most of the empirical literature provides evidence in favour of the separation of these posts. For instance, Brewer et al. (2000) and Mansi et al. (2004) note that CEO–chairperson duality leads to entrenchment if the CEO restricts the flow of information to directors on the board, which can hamper the board's independent oversight. Besides, when there is an executive chairperson, the CEO becomes more powerful in order to influence board decisions towards management's suggested ideas and policies. Becher et al. (2005) suggest that very powerful CEOs tend to undertake less risky projects, since their personal remuneration (or part of it) is tied to company performance; hence, they will opt to not increase the potential for job loss that can arise from risky projects.

Studies show that CEO–chairperson duality constrains board independence (Dalton et al., 1999), reduces the board's ability to fulfil its governance role, and promotes CEO entrenchment (Finkelstein & D'Aveni, 1994). As chair of the board, the CEO can have ample opportunities to pursue opportunistic behaviour and could, for example, appoint board members who will be less actively involved in monitoring (Prevost et al., 2002). A centralized leadership authority can thus lead to management's domination of the board, which will result in poor performance (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976; Shleifer & Vishny, 1997). From an agency perspective, CEO duality is a significant concern. However, there is a reason why the separation of the roles of the CEO and the chairman has been slow to be adopted across the globe, despite the significant research on linkages between firm performance and CEO duality (for a review of the literature, see Daily et al., 2002; Dalton et al., 1999). From a stewardship perspective, the value of separation is evident, as highlighted by the studies cited above.

CEO duality provides firms with a clear focus on both objectives and operations. Leadership focused within a single individual increases a firm's responsiveness and ability to secure critical resources. It eliminates confusion and conflict between the CEO and the chairperson and thus allows for smoother, more effective, and more consistent strategic decision making and implementation. It also provides unified company leadership, which benefits from considerable firm-specific knowledge and experience, and facilitates superior firm performance. Boyd (1995) discusses the notion of stewardship behaviour in which the CEO is concerned with doing the job well and effectively guiding the firm. The author argues that dual structure leadership can consequently have a positive effect on firm value in

environments or under conditions characterized by scarce resources and high complexity, such as in the context of emerging markets.

In the context of GCC private sector firms, where the chair of the firm is often also the family leader and patriarch, it might be difficult to practically separate the CEO and chair roles, because the chairperson's opinion will dominate board discussions, regardless of the views of executives, especially if the CEO is not a member of the family. In the GCC, CEOs are caught between the forces of change and Arab tradition, where individuals are not prepared to work outside the tribe or family. Within this system of strong political ties and a weak regulatory framework, a CEO who also acts as the chairperson of the board of directors is likely to misuse his or her position and hire closely related directors (Chahine & Tohmé, 2009). This reduces the effectiveness of corporate governance mechanisms (Fan et al., 2007), such as the monitoring role played by the elected board of directors, and results in a waste of organizational resources. Arab culture also tends to have a high degree of power distance between the different parties involved, in society and in companies, that is, the rulers and the ruled, employers and employees, and so forth. In such a context of high power distance, accountability tends to be lower, which has significant corporate governance implications, especially when the CEO dominates both the boardroom and management.

The empirical evidence on the subject is also somewhat ambiguous and reports regarding evidence of the impact of CEO–chairperson duality on firm performance are mixed. Lee, Cox, and Roden (2007) reveal that companies with separate chairpersons and CEOs significantly outperform organizations with CEO–chairperson duality in terms of ROE, profit margins, and return on investment.

Belkhir (2009b) reports no significant association between performance and combined CEO–chairperson roles. On the other hand, examining initial public offerings (IPOs) in the Arab world between January 2000 and July 2007, Chahine and Tohmé (2009) note that IPO underpricing is greater for firms with CEO duality. However, strategic shareholders, such as corporations and other industry-related investors, are likely to play a monitoring role, whereas underpricing is found to be lower in firms with both CEO duality and strategic shareholder ownership.

In the UAE, the new corporate governance code (paragraph b of article 4 of Decision No. (7 R.M) of 2016) emphasizes that the CEO position should not be held by the chair and thus advocates for the separation of these positions, since, when both implementation roles and monitoring roles are vested in one individual, the regulator considers there is a high possibility that monitoring will be impaired. However, a few studies examine empirically whether the separation has an impact on corporate performance in the UAE. This is important to investigate, because the corporate governance code has forced companies to separate the roles, reflecting an emerging consensus that this is good corporate governance practice, which naturally has a cost for companies.

Agency theory predicts the potential for opportunistic behaviour under CEO duality. Such opportunistic behaviour can be even more significant in UAE firms, where management styles are usually affected by the bureaucratic legacy of a colonial status and a Bedouin orientation. It also results from the hierarchical authority and patriarchal approach of Arab managers, who show evident nepotism in selecting upper-level management. Arab CEOs who also serve as the chairperson of the board are therefore likely to appoint related board members, who will be less

involved in monitoring and overall issues concerning corporate governance (Prevost et al., 2002), which can increase the underpricing of IPOs (Certo et al., 2001).

In the context of the concentrated ownership structure of the UAE and given the review of the available empirical evidence, we hypothesize that the separation of the two posts can help to achieve an appropriate balance of power, increase accountability, and improve the board's capacity for decision making independent of management, contributing to the effective functioning of the board. Given that the separation of two posts is a growing trend globally, in Gulf countries and in the UAE, especially since the introduction of corporate governance requirements by the SCA, the third hypothesis is formulated as follows.

Hypothesis 3: The separation of the posts of the CEO and chairperson is positively associated with firm performance.

4.2.1.4 Women on the Board

The majority of the studies we reviewed posit a positive performance between the number of independent board members and firm performance. We consider that, particularly in the context of emerging markets, where board independence contributes to board diversity, the impact of increasing the presence of independent board members should, overall, be positive. A number of empirical studies demonstrate the important contribution that increased board diversity has on corporate performance. For instance, research from Credit Suisse finds that, over the past six years, companies with at least some female board representation outperformed those with no women on the board in terms of share price performance; specifically, we find that, for large-cap stocks (with a market cap greater than USD 10 billion), companies with women on the board outperformed

those without by 26%. For small- to mid-cap stocks, the basket of stocks with women on the board outperformed those without by 17% over the same period (Credit Suisse, 2012). The next hypothesis is therefore as follows.

Hypothesis 4: The presence of female board members is positively associated with firm performance.

4.2.2 Ownership Structure and Firm Performance

This section is dedicated to developing hypotheses on the role of ownership structure in developing sound capital structure practices. The ownership structure hypothesis will be developed to include five variables, namely, ownership concentration, which will be incorporated using alternative measures of either 5% ownership or a breakdown into the three largest and five largest owners; then it will use family ownership, foreign ownership, cross-ownership, and state ownership, the last alternatively broken down into sovereign wealth ownership and government agency ownership.

4.2.2.1 Ownership Concentration

Ownership concentration is associated with powerful players, who will have access to more extensive and deeper networks, which can be harnessed to optimize performance. It can be argued that ownership concentration represents the optimal corporate governance arrangement in contexts such as the UAE. As discussed earlier, the widely held firm, presumed in Berle and Means's (1932) seminal work, is not a common form of organization worldwide. It is, rather, an exception in countries other than the United Kingdom, the United States, and a few other Commonwealth jurisdictions. Instead, the dominant organizational form for the firm is one characterized by concentrated ownership (see Table 4 of this dissertation), as is the

case in the GCC region, Europe, Latin America, and Asia. The reasons for concentrated ownership in these countries are historical, although the prevalence of this ownership form through specific mechanisms of corporate control, such as dual-class shares and other control-enhancing mechanisms, is a modern-day invention. In many emerging market countries, such as the UAE, Egypt, and Russia, and in some developed ones, such as France, controlled ownership is a consequence of the state's divestment from previously state-owned assets, which is commonly followed by the transfer of shares to private controlling shareholders (oligarchs in the case of Russia).

A number of reasons for concentrated ownership have been proposed in the literature, including the lack of investor protection. Unlike the widely held corporation, where managers have most of the residual control rights and shareholders have very little power, the closely held corporation is usually controlled by a majority shareholder or a group of controlling blockholders – which can be an individual or a group – or blockholders, such as financial institutions, or other corporations acting through a holding company. Another reason why ownership concentration is the dominant organizational form is because it is one way of resolving the monitoring problem arising from agency theory. According to the principle–agent model, due to the divergence of interests and objectives of managers and shareholders, one would expect the separation of ownership and control to have damaging effects on firm performance. Therefore, one way of overcoming this problem is through direct shareholder monitoring via concentrated ownership.

The problem with dispersed ownership is that the incentives for monitoring management are weak. Shareholders have an incentive to free-ride in the hope that other shareholders will carry out the monitoring. This is because the benefits from

monitoring are shared with all shareholders, whereas the full costs of monitoring are incurred only by those who monitor. These free-rider problems do not arise with concentrated ownership, since the majority shareholder captures most of the benefits associated with monitoring efforts.

Therefore, for the closely held corporation, the problem of corporate governance is not primarily about general shareholder protection or monitoring issues. Instead, it is more one of cross-shareholdings, holding companies and pyramids, and other mechanisms that dominant shareholders use to exercise control, often at the expense of minority investors. It is the protection of minority shareholders that becomes critical in this case. One of the issues in this context is how policy makers can develop reforms that do not disenfranchise majority shareholders while protecting the interests of minority shareholders.

In principle, blockholder ownership can increase firm value through the alignment of incentives or lower it through the expropriation of minority investors. Dominant shareholders have the ability (because they control the firm with sufficient voting rights) and incentive (because they usually have much fewer cash flow rights than voting rights) to expropriate other shareholders by diverting the firm's resources for themselves (Bebchuk, 2002; Claessens et al., 2002). Belkhir (2009a) argues that the presence of blockholders mitigates agency problems, since additional control over management acts in the interests of shareholders, but cannot eliminate them. These agency problems can be a threat to managers because of the power of proxy and voting rights or even to the extent of a takeover.

Blockholders can also become entrenched, just like management, and resist value-enhancing transactions such as acquisitions. If the firm is not performing up to

its financial potential and its shares are traded at a discount because of inefficient management, it becomes a target for a change in corporate control and will be threatened by a tender offer or a hostile takeover by another firm or group of investors. However, bidders can face companions who can drive the share price up to its full value. Moreover, other mechanisms to change the control of corporations and displace unsuccessful managers can include friendly mergers, negotiated tender offers, sales of control by large shareholders, and proxy contests. Given this potentially negative impact of blockholders on minority shareholder rights, it is important to address the mechanisms by which their interests can be aligned with the interests of all shareholders and of the firm itself. While blockholders can technically be short-term investors, such as hedge funds, they are usually long-term investors, such as pension funds or founding family owners. It has been suggested that investors with longer holding periods have more incentive to monitor managers.

On the other hand, even large investors might be unable to oversee managers because of legal barriers that hinder them from voting shares or actively participating in the corporate governance of their investee companies. Many sovereign funds in the GCC countries that invest in equities fall into this category, since they have tended to be non-vocal investors. Another possibility that can limit blockholders from controlling managers is linked to the industry knowledge and skills they bring to the firm and can use to monitor management (Mehran, 1995). Although institutional investors have access to resources such as proxy advisors who may be in position to advise them on key corporate governance challenges, not all blockholders do.

In summary, in the corporate governance literature, blockholders have traditionally been seen from a dual perspective, as sizeable owners able to impose their decisions (especially in firms with dispersed ownership) and hence act at the expense of minority shareholders but also as a force of stability in companies, able to closely monitor management and thereby attenuate potential agency conflicts. Blockholders, unlike small shareholders, have greater incentives to closely monitor management, nominate board members, and collaborate with other shareholders, if necessary, to obtain specific outcomes at general assembly meetings.

Although, typically, blockholders are defined as individual or institutional investors holding large blocks of shares (typically 5% of the total outstanding stock), this definition is context specific, in the sense that a 5% holding in a dispersed ownership company can give significant power, whereas this power can decline substantially in companies with multiple controlling shareholders, as is often the case in Asia, the Middle East, and other emerging markets. Insofar as the ownership landscape in the UAE and the wider MENA region is characterized by concentrated ownership, blockholdings of founding shareholders, sovereign investors (given privatization transactions or investments by state-controlled entities), banks, and asset management firms are extremely common. The 5% ownership concentration measure can alternatively be broken down into two variables, namely, the total ownership of the three largest and five largest shareholders.

The connection between ownership structure and performance has been the subject of important and ongoing debate in the corporate finance literature, going back to Berle and Means' 1932 thesis, which suggests that an inverse correlation between the dispersion of shareholdings and firm performance. The authors' view

was questioned by Demsetz 50 years later, in 1983, arguing that a corporation's ownership structure should be thought of as an endogenous outcome of decisions that reflect the influence of shareholders and of trading on the market for shares. Since then, a number of empirical studies have examined the impact of blockholders on corporate performance.

Studies have generally tended to focus on a single jurisdiction, as opposed to a comparative examination. One of the studies that considers multiple jurisdictions looks at dividend policy as a proxy for the effect of large owners, since they may prefer low dividends if they derive private benefits from controlling firms, whereas minority investors may prefer high dividends that benefit all shareholders. Thomsen (2005) examines the relation between blockholder ownership, dividend policy, and firm value in a panel of the largest European Union and US/UK companies from 1998 to 1998 and finds blockholder ownership has a negative effect on firm value in Continental Europe that is particularly strong for firms with high reinvestment rates and high equity–asset ratios. At the same time, the author finds no similar effect for the United States or the United Kingdom. These findings indicate that concentrated ownership leads to a preference for retained earnings, which lowers the firm's exchange value for minority investors.

Evidence on the impact of blockholders on corporate performance has been mixed, which is natural, since blockholders can be institutional investors or family investors, which tend to have different investment approaches, horizons, and financial objectives. While some studies find a positive and significant relation between blockholder ownership and firm value (Barclay & Holderness, 1991), blockholders can also utilize their influence to extract private benefits.

The results of academic research on the impact of blockholder ownership on firm performance are ambiguous. Whereas Belkhir (2009a) finds that blockholders reduce the risk of moral hazard and control the agency problem between shareholders and managers, Reddy et al. (2013) find that that blockholder ownership has a significant and negative relation with firm performance, using performance measures such as Tobin's Q and ROA. More recent literature on the concentration of ownership in the hands of blockholders tends to see their impact as positive, especially in Western markets, where the lengthening of the investment chain, high-frequency trading, and the rise of exchange-traded funds have contributed to the shortening of holding periods and, consequently, the lack of investor focus on the corporate governance of their investee companies (OECD, 2014). Some policy makers (e.g. in France) have therefore gone so far as to allow long-term shareholders, which characterizes most blockholders, to have multiple voting rights in excess of their direct ownership. Looking at the example of Russia, another country characterized by concentrated ownership, Kuznetsov et al. (2010) find evidence of a negative association between the size of the dominant owners' shareholdings and performance parameters such as investment, capacity utilization, and profitability. The authors also establish that control structures with multiple large shareholders increase efficiency. The ambiguity of the effects of ownership concentration suggests that country-specific factors play an important role.

Reddy et al. (2013) use data on New Zealand–based firms to demonstrate that, although the majority only test for a linear relation between variables, a number of studies find a non-linear relation between board structures, ownership structures, and firm performance. Their study confirms this non-linear relationship. Using a balanced panel of 79 New Zealand–listed firms, the authors employ a generalized

linear model for robustness. The results reveal that boards of directors, board committees, and managerial ownership have a positive and significant impact on firm performance.

The origin of conflicts in concentrated ownership firms can be found in the tendency of majority shareholders to use their power to gain benefits that harm the private wealth of minority shareholders (Francis et al., 2005; La Porta et al., 1999). A greater concentration of voting rights can therefore lead to greater incentives for controlling shareholders to obtain private benefits. This trend can be exacerbated in the case of family firms, because these benefits remain with the controlling family whereas, in non-family firms, they are distributed among a large number of shareholders (Villalonga & Amit, 2006).

Considering that, in the UAE, state ownership and family ownership are the most prevalent blockholdings and that other institutional investors have relatively few blockholdings in UAE-listed firms, we hypothesize that blockholder interests will be generally aligned with firm interests, since both are long-term shareholders. Consequently and to further understand these contradicting views on the effect of blockholder ownership on corporate performance, the fifth hypothesis is posited as follows.

Hypothesis 5: There is a positive association between ownership concentration and firm performance in the UAE.

4.2.2.2 Foreign Ownership

Rajan and Zingales (1998) argue that personal ties assume greater importance in systems based on personal familial relations, where formal contractual rights are weak, and when the pool of investment capital is limited, which can result in capital

misallocation. Fainshmidt et al. (2017) state that, when family-owned firms are supported by strong domestic networks of relationships, they can become less experienced at optimizing the more transactional or arm's length relationships encountered in advanced societies. Wood et al. (2019) hypothesize that foreign investors can provide knowledge and in-depth experience in working with family-based networks. This leads to the following hypothesis.

Hypothesis 6: There is a positive association between the share of foreign ownership and firm performance in the UAE.

4.2.2.3 State Ownership

State ownership can be proxied for by the government's total holdings in a company or, alternatively, it can be broken down into two separate variables that sum to a value representing state ownership, namely, Sovereign Wealth Fund (SWF) ownership and government agency ownership in companies. Many sovereign funds in the GCC countries that invest in equities actually fall into this category, since they have tended to be non-vocal investors. In the UAE, close to 20% of all market capitalization is estimated to be in the hands of sovereign investors (see Table 4 of this dissertation). The UAE is home to multiple sizeable sovereign investors, including not only the Abu Dhabi Investment Authority, which is the largest, but also the Emirates Investment Authority and Dubai Investments. This research does not examine companies that are 100% owned by the government due to the fact that such companies are exempt from the CCL by virtue of paragraph b of article 4 of the 2015 CCL.

Two opposite effects of government ownership on firm performance have been documented in the literature (Boubaker & Nguyen, 2018). On the one hand, the

guarantees that government ownership can provide for firm liabilities represent a benefit, with access to cheaper credit and an implicit bailout in times of distress. This implicit protection, especially under adverse conditions, could lead to better performance for state-owned companies (soft budget constraint view). On the other hand, government ownership can induce moral hazards that could negatively affect firm performance. As opposed to private ownership, which mainly seeks wealth maximization, state ownership pursues social and/or political aims that could conflict with profit maximization, thus distorting firms' decisions and negatively affecting their performance. Borisova et al. (2012) also argue that a lack of monitoring incentives or skills is observed in firms where the government is a major shareholder. State-owned firms' managers therefore tend to adopt excessive risk-taking behaviour that negatively affects their performance (political view). The combined effects of the two views (soft budget constraint and political views) can lead to an overall positive or negative impact.

In the UAE context, AlAwadhi (2018) documents an overall negative impact of government ownership on the performance of listed firms, as proxied by Tobin's Q. The following hypothesis is therefore posited.

Hypothesis 7: There is a negative association between the proportion of state ownership and firm performance in the UAE, indicating the prevalence of the soft budget constraint view (political view).

4.2.2.4 Family Ownership

Much evidence suggests that family ownership is a relatively efficient model in contexts where institutions are relatively weak (Fainshmidt et al., 2017). On the one hand, the significant representation of outsiders on boards can allow for the infusion of fresh ideas and temper deep-seated family loyalties (Johannisson & Huse,

2000). Commercial and industrial families can forge solutions most appropriate to their context. Van Essen et al. (2015) find that, when investor protection and institutional effectiveness are weaker, family-owned firms are particularly likely to outperform non-family firms. This would suggest that, when family ownership stakes are diluted, such beneficial effects will be less pronounced. Furthermore, public ownership subjects firms to greater scrutiny, which can make it harder for dominant families to make self-serving decisions.

Some studies examine the impact of specific blockholders, such as founding family owners, on performance. The most common argument is to reduce agency costs within a family firm. A family structure leads to more effective control and reduces the divergence of interest between managers and shareholders (Fama & Jensen, 1983). James (1999) argue that family-owned firms are expected to make better investment decisions, since families have longer investment horizons, with less emphasis on short-term results, thus leading to better performance (Faccio, 2010). In addition, family firms with large undiversified assets are usually long-term investors with substantial wealth at risk and eager to pass the firm on to their heirs to maintain family control.

Evidently, family ownership must be seen mostly as a special case of insider ownership. Therefore, this new family business literature is very relevant to the insider ownership issue as well, especially for Germany, where family businesses have traditionally attracted a great deal of attention, given their predominant economic role. In the United States, Anderson et al. (2004) show that family ownership is present in a third of all S&P 500 companies and that family firms

outperform non-family firms, which suggests that family ownership is an effective organizational ownership structure.

Villalonga and Amit (2006), looking at all Fortune 500 companies from 1994 to 2000, conclude that family ownership creates value when the founder serves as CEO or chair of the family firm. For instance, examining the long-run performance (1903–2003) of a matching sample of 62 family firms and 62 non-family firms, Ehrhardt and Nowak (2003) show that family businesses outperform non-family firms in operating performance but not with respect to stock price performance. This argument is particularly relevant to the GCC countries, considering that, in many countries of the region, the founding shareholders are required to hold a certain percentage of equity for two to three years following the introduction of their firms to the stock exchange. Beyond this period, family ownership is prevalent in GCC unlisted companies, as well as in listed firms. Although few studies have examined the impact of family ownership on firm value in the region, apart from those mentioned above, the evidence appears positive globally.

Founding families represent a special type of firm shareholder. Anderson et al. (2004) state that founding families differ from other shareholders in two main aspects: their interest in the company's long-term survival and their concerns for the reputation of the company and the family itself. This can suggest that the aim of such companies is not to maximize shareholder value but, rather, to maximize the value of the company when the two are in conflict. Families have concerns and interests of their own, such as stability and capital preservation, which might not align with the interests of other company investors.

Carney (2005) notes that much of the literature on family firms focuses on the resource-based view. To understand family firms, both company time and place must be considered. National institutions and cultures will have a much greater effect than formal structures will. It could be argued that large commercial and industrial families secure ever greater influence by capitalizing on recent political developments and associated regulatory changes (Karadag, 2010). This opens up new opportunities for leading families to maximize the returns accruing to them, concentrating ownership and control and leaving other interests much worse off (Bugra & Savaşkan, 2014). Navarro et al. (2011), focusing on the Spanish context, use various econometric techniques to examine how family ownership, family control, and the presence of a second significant shareholder affect firm performance. The authors study a panel of 118 non-financial Spanish companies (711 observations) from 2002 to 2008. Once endogeneity issues are considered, they find that family ownership does not influence profitability, but family control does. This study also reveals the importance of taking into account unobservable heterogeneity and endogeneity issues when analysing firm performance and provides an interesting future avenue of research: the role played by other large shareholders in family firms.

However, the performance of family businesses is only better in firms in which the founding family is still active on either the executive or the supervisory board. This finding suggests that family ownership is related to superior firm performance only under certain conditions. If families are just large shareholders without board representation, the performance of their companies is not distinguishable from that of other firms. In addition, the results indicate that other blockholders either affect firm performance adversely or have no detectable influence on performance measures (Andres, 2008).

Considering that most family businesses in the UAE are owned and controlled by the founding families, who are trying to maintain this control and ownership and pass them to their heirs, and competitive and reputational issues, which are of significant importance in the UAE, the following hypothesis is posited.

Hypothesis 8: There is a positive association between the proportion of family ownership and firm performance in the UAE.

4.2.2.5 Cross-Ownership

Cross-ownership is the state when two companies own the share of their respective equity capital. A major function of cross-ownership is that it allows minority shareholders to maintain control while only holding a relatively small proportion of equity (Bebchuk, 2002). Hence, it can enable organizations to fend off the concerns of non-insider shareholders, leaving the latter worse off. For example, cross-ownership can allow families with a modest investment to disempower non-family shareholders (Villalonga & Amit, 2006). However, cross-ownership allows for such benefits as the sharing of knowledge and capabilities, skills enhancement, bargaining arrangements, and the support of longer-term investor objectives (Peng & Jian, 2010). The following hypothesis is thus proposed.

Hypothesis 9: There is a negative association between cross-ownership and firm performance in the UAE.

4.2.3 Firm-Specific Control Variables

The following control variables are added to the regressions to isolate any interference with the independent variables' power to explain the effect of corporate governance mechanisms and the significance of the inferences made on the causality

between corporate governance and firm performance. The control variables considered in this research are firm leverage, firm age, and firm size.

4.2.3.1 Firm Leverage

Barakat (2003) states that leverage does not have the positive significant effect of a debt tax shield on corporate income, since the UAE does not have a corporate tax system. According to Campbell and Minguez-Vera (2008), leverage is negatively associated with firm performance because a higher level of debt increases the risk of bankruptcy. In contrast, Jensen (1986) notes a positive relation between leverage and firm performance because high levels of debt decrease potential agency costs; that is, managers have less cash available after servicing debt. Using a panel of 92 UAE-listed firms from 2006 to 2015, AlAwadhi (2018) finds that leverage negatively affects performance.

4.2.3.2 Firm Age

The effects of firm age on firm performance are ambiguous. Sarkar and Sarkar (2000) assert that the performance of younger firms is greater because they have newer assets relative to mature firms; hence, they are more likely to be able to comply with environmental legislation at a lower cost. However, mature firms possess accumulated knowledge about the country and market. Mature firms are likely to have built up a level of market share that can be more difficult for younger firms to match. Because of their experience, they may also be more resistant to crises.

4.2.3.3 Firm Size

Firm size has an effect on firm performance. Su et al. (2008) posit that larger firms are more likely to have larger boards, which, in turn, leads to greater agency costs (Jensen & Meckling, 1976). Hence, firm size is negatively associated with firm performance. On the other hand, Setia-Atmaja (2009) finds a positive relation between firm size and board independence. Mura (2007) explains that, due to economies of scale, larger firms are expected to be more profitable. Larger firms can also access cheaper resources and funds. AlAwadhi (2018) identifies a negative impact of UAE firms' size on their performance.

4.3 Data and Methodology

Our methodology consists in applying various statistical techniques aimed at uncovering potential associations between boards of directors, ownership structures, and selective corporate governance mechanisms that impact on firm performance. We apply these techniques to a large sample of UAE-listed companies over a 10-year period. The approach is informed by empirical data on UAE companies listed on the Abu Dhabi Exchange (ADX) and the Dubai Financial Market (DFM) and, hence, is considered superior to other research approaches, which can rely on qualitative impressions collected through interviews and surveys.

This dissertation adopts a natural scientist position when examining the data. Therefore, positivist principles will be regarded in the study so there will be no bias during data collection. This implies that the researcher cannot influence or interfere with the research subject at any point. Baxter and Jack (2008) suggest that a positivist philosophy is essential in accounting studies, where most variables of interest are quantitative, and a positivist philosophy facilitates replication. Another

important reason for adopting a positivist philosophy is that it is not interested in impressions but, rather, facts.

This dissertation assesses whether the developed theory and statements made about the impacts of board and firm ownership structures on firm financial performance are true in the case of UAE-listed companies by testing the hypotheses formulated above. The research approach is therefore deductive, since the hypotheses are derived from existing theories and empirical works that will be tested to determine their veracity. Myers (2008) states that a deductive approach is applied in the natural sciences to predict occurrences such as the relation between board structure and firm performance. In this regard, the deductive approach will be combined with appropriate methodology to ensure reliability.

Rubin and Babbie (2010) argue that an explanatory research strategy is one in which the researcher attempts to determine the existence of an association between variables. Consequently, in explanatory studies, the major focus is on understanding the problem or situation well enough to provide a sufficient explanation of the association with the main factors. In this study, the explanatory research strategy is adopted to determine the connection between independent variables for the board and ownership structures and the dependent variables (firm financial performance) using statistical tests.

4.3.1 Sample Description

Our sample covers the period from 2007 to 2018. Data on board characteristics was hand collected using annual and corporate governance reports gathered from company websites, the SCA, and the Hawkamah Institute for

Corporate Governance. Ownership data were mainly collected from Thomson Reuters Eikon and completed with hand-collected information from annual and corporate governance reports. Financials were collected from S&P's Capital IQ. After all firms with missing information are excluded, our sample comprises 92 UAE-listed firms (406 firm–year observations), with 60 from the ADX and 32 from the DFM, 50 of which are non-financial firms and 42 financial firms. Box 6 summarizes the distribution of the sample companies among the various economic sectors. Table 4 presents the descriptive statistics and pairwise correlation matrix.

Box 6: Sample companies' distribution among various economic sectors in the UAE

Industry	**Number of firms**
Banks	10
Consumer staples and discretionary	10
Energy	3
Industrial	11
Insurance	25
Invest. & financial services	7
Private joint stock companies	2
Real estate & construction	11
Services	7
Telecommunications	2
Transportation & logistics	4
Total	92

Table 4: Descriptive statistics and correlation matrix

	Variables	Mean	S. D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1	**TQ**	0.717	0.486	1																		
2	**ROA**	0.028	0.077	0.170*	1																	
3	**ROE**	-0.019	1.912	0.003	0.182*	1																
4	**B_SIZE**	7.921	1.686	-0.160*	0.040	0.051	1															
5	**B_IND**	0.703	0.209	0.105*	-0.062	-0.042	0.060	1														
6	**B_W**	0.015	0.043	0.132*	-0.044	0.011	-0.015	0.049	1													
7	**B_DUAL**	0.108	0.311	0.048	0.085	0.082	0.204*	-0.039	0.023	1												
8	**OWN_C**	0.525	0.238	0.167*	0.062	-0.055	-0.168*	-0.180*	0.017	-0.152*	1											
9	**OWN_C3**	0.492	0.221	0.175*	0.045	-0.031	-0.101*	-0.206*	0.103*	-0.076	0.908*	1										
10	**OWN_C5**	0.527	0.228	0.181*	0.071	-0.055	-0.136*	-0.190*	0.036	-0.104*	0.980*	0.946*	1									
11	**F_OWN**	0.067	0.155	0.173*	-0.006	0.017	-0.038	-0.042	-0.011	0.051	0.121*	0.143*	0.153*	1								
12	**S_OWN**	0.198	0.265	-0.057	0.062	0.056	0.309*	-0.029	0.063	0.110*	0.317*	0.436*	0.355*	-0.187*	1							
13	**SWF_OWN**	0.104	0.196	-0.169*	0.014	0.061	0.511*	-0.100*	-0.043	0.160*	0.060	0.142*	0.077	-0.147*	0.589*	1						
14	**GA_OWN**	0.094	0.218	0.083	0.063	0.014	-0.083	0.055	0.115*	-0.010	0.332*	0.402*	0.362*	-0.095	0.687*	-0.183*	1					
15	**FAM_OWN**	0.084	0.192	0.180*	0.066	0.020	-0.197*	-0.206*	-0.055	-0.064	0.265*	0.204*	0.231*	0.368*	-0.299*	-0.218*	-0.167*	1				
16	**C_OWN**	0.173	0.236	0.150*	-0.030	-0.025	-0.264*	-0.099*	-0.061	-0.139*	0.337*	0.323*	0.335*	0.389*	-0.450*	-0.318*	-0.262*	0.149*	1			
17	**LEV**	0.004	0.208	0.001	-0.217*	-0.058	0.080	0.077	0.048	-0.050	-0.101*	-0.104*	-0.110*	-0.226*	0.200*	0.028	0.218*	-0.067	-0.347*	1		
18	**AGE**	2.952	0.829	-0.060	0.162*	0.008	0.057	-0.068	-0.084	0.094	0.148*	0.075	0.125*	0.020	0.014	0.028	-0.008	0.179*	-0.047	-0.005	1	
19	**SIZE**	8.381	2.091	-0.258*	0.033	0.079	0.440*	-0.082	-0.093	0.253*	-0.031	0.081	0.010	-0.298*	0.559*	0.627*	0.116*	-0.382*	-0.291*	0.190*	-0.070	1

Table 4 reports the descriptive statistics and correlation matrix for the following variables: TQ: Tobin Q; ROA: Return on assets; ROE: Return on equity; B_SIZE: Board size; B_IND: Independent board membership; B_W: Women board membership; B_DUAL: CEO duality; OWN_C: Ownership concentration measured as the percentage of shares held in blocks of 5 percent; OWN_C3: Ownership concentration measured as the percentages of shares held by the three largest shareholders; OWN_C5: Ownership concentration measured as the percentages of shares held by the five largest shareholders; F_OWN: Foreign ownership; S_OWN: State ownership; SWF_OWN: Sovereign Wealth Funds' ownership; GA: Government Agencies' ownership; FAM_OWN: Family ownership; C_OWN: Cross ownership; LEV: Firm leverage; AGE: Firm age; SIZE: Firm size. *denotes statistical significance at the 5% level.

Although some of the model variables are significantly correlated, a multicollinearity test is performed and a variance inflation factor of 3.33 is obtained for all the independent variables, which is below the threshold of 10 (Pillai & Al-Malkawi, 2018)

4.3.2 Empirical Model

To test the hypotheses above, we conduct a multivariate regression analysis of the following representative empirical model:

$$PERF_{it} = \alpha_0 + \beta_1 B_SIZE_{it} + \beta_2 B_IND_{it} + \beta_3 B_DUAL_{it} + \beta_4 B_W_{it} + \beta_5 OWN_C_{it} + \beta_6 F_OWN_{it} + \beta_7 S_OWN_{it} + \beta_8 Fam_OWN_{it} + \beta_9 C_OWN_{it} + Firm\ Specific\ Controls_{it} + Fixed\ effects_i + \varepsilon_{it}$$

4.3.2.1 Dependent Variables

The dependent variable is firm performance, which is proxied for by the following three variables:

- TQ, Tobin’s Q, which is the sum of the percentage of the market value of equity and the book value of debt, divided by the book value of assets;
- ROA, the percentage of earnings before interest and taxes to total assets; and
- ROE, the percentage of net income to total assets.

4.3.2.2 Board Composition Independent Variables

The following are the board composition independent variables:

- Board size (B_SIZE), the number of directors appointed to the board;

- Independent board membership (B_IND), the percentage of independent and non-executive board members, measured as the percentage of independent members on the board;
- Women's board membership (B_W), which refers to the presence of women on the board, measured as the percentage of female directors on the board;
- CEO duality (B_DUAL) or, commonly, board leadership, where CEO duality is measured using a dummy variable that equals one when the CEO also serves as the chairperson and zero otherwise.

4.3.2.3 Ownership Independent Variables

The following are the ownership independent variables:

- Ownership concentration (OWN_C) is measured as the percentage of shares held in blocks of 5% or more and two alternatives measures of concentration are also used: OWN_C3 and OWN_C5, which denote the percentages of shares held by the three and five largest shareholders, respectively;
- Foreign ownership (F_OWN) is measured using the percentage of foreign investors' shares to total shares;
- State ownership (S_OWN) is measured as the percentage of shares owned by the government to total shares and two types of state ownership are distinguished, SWF ownership (SWF_OWN) and government agency ownership (GA_OWN);
- Family ownership (Fam_OWN) is measured using the percentage of shares owned by a family to total shares;

- Cross-ownership (C_OWN) is measured as the percentage of shares owned by corporate shareholders to total shares.

4.3.2.4 Firm-Specific Controls

The following are firm-specific control variables:

- Leverage (LEV), the sum of short- and long-term debt divided by total assets;

- Firm age (AGE), the natural logarithm of the age of the firm from the date of its incorporation;

- Firm size (SIZE), the natural logarithm of the total assets owned by the firm.

4.4 Results and discussion

The above regression empirical model is run on the data with more than variate and the tables below exhibit the nature of the regression and the test results as follows: column (1) reports the results of a pooled ordinary least squares (OLS) regression, column (2) reports the results of a pooled OLS regression with fixed industry effects, column (3) reports the results of a pooled OLS regression with fixed year and effects, column (4) reports the results of a fixed effects panel regression, and column (5) reports the results of a random effects panel regression. Table 5 reports the regression results for the impact of board composition and ownership structure on UAE firm financial performance, as measured by Tobin's Q. Under this specification, ownership concentration is measured as the percentage of shares held in blocks of 5% or more.

Table 5: Impact of board composition and ownership structure on Tobin Q

Tobin's Q	(1)	(2)	(3)	(4)	(5)
B_SIZE	-0.032	-0.024	-0.029	-0.047*	-0.017
	(0.024)	(0.021)	(0.021)	(0.024)	(0.022)
B_IND	0.007***	0.004***	0.004***	0.003*	0.003**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)
B_DUAL	0.497***	0.108	0.145	0.069	0.047
	(0.121)	(0.111)	(0.120)	(0.078)	(0.076)
B_W	0.013*	0.021***	0.022***	0.001	0.003
	(0.007)	(0.006)	(0.006)	(0.006)	(0.006)
OWN_C	0.007**	0.011***	0.011***	0.007***	0.006***
	(0.003)	(0.002)	(0.002)	(0.002)	(0.002)
F_OWN	0.004	0.003	0.003	0.004	0.005
	(0.004)	(0.003)	(0.003)	(0.006)	(0.004)
S_OWN	-0.000	-0.007***	-0.007***	-0.011**	-0.001
	(0.003)	(0.002)	(0.002)	(0.005)	(0.003)
Fam_OWN	0.004**	0.001	0.001	0.013***	0.007**
	(0.002)	(0.002)	(0.002)	(0.004)	(0.003)
C_OWN	-0.002	-0.005*	-0.005*	-0.005	-0.004
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
AGE	-0.182***	-0.094***	-0.105***	0.023	-0.008
	(0.046)	(0.032)	(0.032)	(0.111)	(0.057)
SIZE	-0.110***	-0.041	-0.043	-0.235***	-0.107***
	(0.027)	(0.034)	(0.034)	(0.050)	(0.033)
LEV	0.006***	0.004***	0.004***	0.004**	0.003
	(0.002)	(0.001)	(0.001)	(0.002)	(0.002)
Constant	0.145	-1.268***	-1.490***	0.889	-0.115
	(0.363)	(0.393)	(0.388)	(0.594)	(0.357)
Industry FE		YES	YES		
Firm FE				YES	
Year FE			YES	YES	
Observations	406	406	406	406	406
R-Squared	0.259	0.557	0.568	0.235	0.167

Robust standard errors are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

The regression results reported in Table 5 are mostly consistent with the stated hypotheses. Agency theory suggests that the increased managerial monitoring associated with larger boards can have a positive influence on corporate disclosures, including corporate governance practices and performance (Samaha et al., 2012), whereas others studies suggest that larger boards are often characterized by poor coordination and communications and monitoring problems (Jensen, 1993), which can negatively impact corporate governance disclosure and financial performance. However, in the UAE setting, board size has no significant effect on firm performance, which can be explained by the fact that most companies have comparable board sizes and board strength is concentrated in the hands of the chairperson.

The results show a strong positive effect of independent representation on boards, a new addition to the UAE governance requirements and as desired by the regulations. The positive effect is in line with most of the literature and empirical tests in this regard, which show that independent boards have a positive impact on company financial performance (e.g. Fich & Shivdasani, 2006; Fields et al., 2010; Finkelstein & Mooney, 2003).

Studies show that CEO–chairperson duality constrains board independence (Dalton et al., 1999), reduces the board's ability to fulfil its governance role, and promotes CEO entrenchment (Finkelstein & D'Aveni, 1994). However, the dual CEO role has almost no effect, because it is not allowed under UAE laws and regulations and the positive significant result in the first column of Table 5 is spurious at best, because of the use of the dummy variable that compares companies

with duality to those lacking it. The sample consists of only firms that without a duality structure.

Women's representation on boards has a significant positive effect on firm performance, in line with other theoretical and empirical works, such as 2012 research from Credit Suisse, which finds that companies with female board representation outperform those with no women on the board, in terms of share price performance. The only drawback to this argument is that the number of women in practice in UAE-listed companies is low to none and it is the only comply or explain provision in the SCA governance code , due to the fact that it is a contemporary issue and because of the small number of women willing to serve on boards.

Regarding the ownership structure issue, we find a strong positive impact of ownership concentration on firm performance. This result is along the lines of the proponent effect of blockholdings, where Belkhir (2009a) finds that blockholders reduce the risk of moral hazard and control the agency problem between shareholders and managers, and differs from Reddy et al. (2013) results, where blockholder ownership has a significant and negative relation with firm performance.

Despite the hypothesis of Wood et al. (2019), that foreign investors can provide knowledge and experience for sound board practices, we find no evidence of a foreign ownership effect. This could be because only very few companies do not ban foreign ownership, but these allow only percentages too small to effect any change in corporate culture (e.g. 0–20% at best).

Consistent with the political view of state ownership of Boubaker and Nguyen (2018) and with AlAwadhi's (2018) empirical findings, we find evidence of

a negative impact of state ownership on UAE firm performance. One can argue that such a finding is due to the difference in mandates between the government's social role and the competitive and profitable nature of the corporate culture.

The empirical work on family ownership that is closest to the UAE setting is that of Van Essen et al. (2015), who find that, when investor protection and institutional effectiveness are weaker, family-owned firms are particularly likely to outperform non-family firms. This would suggest that, when family ownership stakes are diluted, such beneficial effects will be less pronounced. Furthermore, public ownership subjects firms to greater scrutiny, which can make it harder for dominant families to make self-serving decisions. Family ownership in the UAE has similar characteristics. It is minimal among listed companies (the sample for this research) because families in the UAE tend to maintain full ownership of their businesses by keeping them private and unlisted. Families cannot make self-serving decisions because their ownership stakes in the listed companies are minimal and corporate governance enforcement is not the strongest in the UAE, because it is so recent. The results show that the effect of family ownership is weak and positive, since family ownership in listed companies is diluted.

In line with previous empirical works, cross-ownership exhibits a negative, albeit weak, impact on firm performance, as represented by Tobin's Q. This can be explained by Bebchuk (2002), who state that cross-ownership allows minority shareholders to maintain control, and Villalonga and Amit (2006), who state that cross-ownership can allow families with a modest investment to disempower non-family shareholders, which could be the case in the UAE, as stated earlier.

The R-squared values are rather low without fixed effects, meaning that the independent variables (corporate governance structures) have limited explanatory power for the dependent variable. As expected, R-squared increases with fixed effects (time-invariant factors such as the industry), where the intercept is broken down by industry and year (Table 6). The R-squared values are even lower with the variable effects considered, where the independent variables' betas are allowed to vary, meaning there is more randomness in the independent variable effects, which, in turn, weakens the explanatory power of the empirical model.

Normality tests for the models' residuals are also conducted using the Shapiro–Wilk test. They all point towards the residuals' departure from normality, with *p*-values of less than 0.01 for all five models. However, it is well documented that, for large samples (of more than 30 or 40 observations), violation of the normality assumption is not problematic, since the central limit theorem will hold and the sampling distribution will tend to be normal (Pallant, 2007).

Table 6 reports the regression results for the impact of board composition and ownership structure on UAE firms' financial performance, as measured by the ROA. The results are rather disappointing, since none of the board or ownership variables show any significant effect on firm performance as represented by the ROA. This could indicate a spurious relation, with the unusually strong negative effect of leverage and the counterintuitive finding of positive effects of firm age and size as evidence to support such a suspicion. The weakness of the results is supported by the very low R-squared values of less than 10%, without the consideration of fixed effects.

Table 6: Impact of board composition and ownership structure on the ROA

ROA	(1)	(2)	(3)	(4)	(5)
B_SIZE	0.028	0.156	0.140	-0.033	0.108
	(0.301)	(0.294)	(0.308)	(0.537)	(0.324)
B_IND	-0.005	-0.020	-0.020	-0.039	-0.016
	(0.018)	(0.018)	(0.019)	(0.035)	(0.023)
B_DUAL	1.018	-0.603	-0.997	-1.056	0.300
	(1.462)	(1.524)	(1.721)	(1.722)	(1.444)
B_W	-0.039	-0.033	-0.017	-0.059	-0.088
	(0.110)	(0.109)	(0.113)	(0.138)	(0.100)
OWN_C	-0.002	0.015	0.016	-0.061	-0.017
	(0.027)	(0.026)	(0.026)	(0.052)	(0.031)
F_OWN	-0.029	-0.037	-0.038	0.209*	-0.020
	(0.029)	(0.028)	(0.028)	(0.122)	(0.043)
S_OWN	0.024	-0.003	-0.004	-0.040	0.024
	(0.024)	(0.022)	(0.022)	(0.107)	(0.035)
Fam_OWN	0.036	0.037	0.036	0.096	0.043
	(0.032)	(0.031)	(0.032)	(0.093)	(0.037)
C_OWN	-0.017	-0.017	-0.018	0.004	-0.026
	(0.023)	(0.021)	(0.022)	(0.076)	(0.036)
AGE	1.274**	1.640***	1.749***	0.975	1.250*
	(0.494)	(0.560)	(0.570)	(2.452)	(0.664)
SIZE	0.115	0.694**	0.712**	0.527	0.227
	(0.224)	(0.340)	(0.344)	(1.095)	(0.372)
LEV	-0.096***	-0.105***	-0.108***	-0.232***	-0.134***
	(0.026)	(0.031)	(0.032)	(0.040)	(0.024)
Constant	-1.999	-12.401**	-9.660**	4.994	-1.647
	(2.845)	(4.891)	(4.725)	(13.111)	(4.506)
Industry FE		YES	YES		
Firm FE				YES	
Year FE			YES	YES	
Observations	406	406	406	406	406
R-Squared	0.098	0.223	0.233	0.159	0.093

Robust standard errors are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 7 reports the regression results for the impact of board composition and ownership structure on UAE firms' financial performance, as measured by the ROE. The results are similar to the ROA analysis, with less significance for the control variables. Again, the results are supported by the very low R-squared values of less than 5%, without fixed effects, which do not provide much improvement over the earlier figures.

Table 7: Impact of board composition and ownership structure on the ROE

ROE	(1)	(2)	(3)	(4)	(5)
B_SIZE	-1.169	1.064	0.909	-20.056	-1.169
	(3.535)	(5.284)	(5.318)	(17.915)	(6.625)
B_IND	-0.210	-0.346	-0.345	0.867	-0.210
	(0.274)	(0.378)	(0.392)	(1.173)	(0.481)
B_DUAL	22.789	16.625	24.098	43.274	22.789
	(39.293)	(41.041)	(46.704)	(57.499)	(33.037)
B_W	1.188	1.515	1.208	0.055	1.188
	(1.447)	(1.678)	(1.676)	(4.596)	(2.286)
OWN_C	-1.384	-1.247	-1.234	1.347	-1.384**
	(1.517)	(1.516)	(1.505)	(1.751)	(0.625)
F_OWN	-0.143	-0.129	-0.156	7.494*	-0.143
	(0.187)	(0.197)	(0.212)	(4.085)	(0.761)
S_OWN	1.150	1.138	1.178	4.737	1.150*
	(1.078)	(1.018)	(1.041)	(3.567)	(0.651)
Fam_OWN	1.173	1.117	1.164	-1.008	1.173*
	(1.193)	(1.135)	(1.166)	(3.099)	(0.664)
C_OWN	0.685	0.683	0.729	0.050	0.685
	(0.793)	(0.734)	(0.747)	(2.553)	(0.647)
AGE	3.722	4.551	1.697	-64.417	3.722
	(7.288)	(8.027)	(9.401)	(81.861)	(12.072)
SIZE	5.790	11.159	11.319	3.185	5.790
	(4.802)	(13.094)	(13.132)	(36.557)	(6.601)
LEV	-0.746*	-0.974	-0.947	-2.830**	-0.746
	(0.417)	(0.697)	(0.731)	(1.347)	(0.498)
Constant	-12.243	-113.346	-114.148	42.595	-12.243
	(23.497)	(118.060)	(116.123)	(437.775)	(87.041)
Industry FE		YES	YES		
Firm FE				YES	
Year FE			YES	YES	
Observations	406	406	406	406	406
R-Squared	0.032	0.038	0.051	0.058	0.032

Robust standard errors are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Tables 8 and 9 replace the owner concentration independent variable (5% or greater ownership) with the three largest and five largest owners' stakes, respectively. The results are almost identical to those in Table 6. This is an indication of how robust the the positive role of concentrated ownership – regardless of the proxy used – on firm performance as indicated by Tobin's Q. This robustness is also supported by similar R-squared results with and without fixed and random effects.

Table 8: Impact of board composition and ownership structure on Tobin's Q with an alternative ownership concentration measure (OWN_C3)

Tobin's Q	(1)	(2)	(3)	(4)	(5)
B_SIZE	-0.030	-0.020	-0.026	-0.048**	-0.017
	(0.024)	(0.021)	(0.021)	(0.024)	(0.022)
B_IND	0.008***	0.004***	0.005***	0.003*	0.003**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)
B_DUAL	0.476***	0.083	0.123	0.072	0.050
	(0.121)	(0.111)	(0.119)	(0.078)	(0.076)
B_W	0.008	0.013**	0.014**	0.001	0.003
	(0.007)	(0.006)	(0.006)	(0.006)	(0.006)
OWN_C3	0.010***	0.015***	0.015***	0.009***	0.008***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)
F_OWN	0.004	0.003	0.003	0.004	0.004
	(0.004)	(0.003)	(0.003)	(0.006)	(0.004)
S_OWN	-0.003	-0.010***	-0.009***	-0.013**	-0.003
	(0.003)	(0.003)	(0.003)	(0.005)	(0.003)
Fam_OWN	0.004	0.000	0.000	0.011**	0.006*
	(0.002)	(0.002)	(0.002)	(0.004)	(0.003)
C_OWN	-0.004	-0.008***	-0.008***	-0.005	-0.005*
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
AGE	-0.171***	-0.073**	-0.084**	0.015	-0.003
	(0.044)	(0.031)	(0.033)	(0.111)	(0.057)
SIZE	-0.113***	-0.046	-0.048	-0.233***	-0.110***
	(0.026)	(0.033)	(0.034)	(0.049)	(0.032)
LEV	0.006***	0.005***	0.005***	0.005**	0.003*
	(0.002)	(0.001)	(0.001)	(0.002)	(0.002)
Constant	0.083	-1.371***	-1.588***	0.897	-0.115
	(0.378)	(0.408)	(0.406)	(0.593)	(0.354)
Industry FE		YES	YES		
Firm FE				YES	
Year FE			YES	YES	
Observations	406	406	406	406	406
R-Squared	0.265	0.568	0.577	0.239	0.180

Robust standard errors are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 9: Impact of board composition and ownership structure on Tobin's Q with an alternative ownership concentration measure (OWN_C5)

Tobin's Q	(1)	(2)	(3)	(4)	(5)
B_SIZE	-0.030	-0.024	-0.030	-0.047*	-0.017
	(0.024)	(0.021)	(0.021)	(0.024)	(0.022)
B_IND	0.008***	0.004***	0.004***	0.003*	0.003**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)
B_DUAL	0.485***	0.094	0.128	0.067	0.049
	(0.121)	(0.110)	(0.119)	(0.078)	(0.076)
B_W	0.012*	0.020***	0.020***	0.001	0.003
	(0.007)	(0.005)	(0.006)	(0.006)	(0.006)
OWN_C5	0.009***	0.013***	0.012***	0.006**	0.006***
	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)
F_OWN	0.004	0.002	0.002	0.004	0.004
	(0.004)	(0.003)	(0.003)	(0.006)	(0.004)
S_OWN	-0.002	-0.007***	-0.007***	-0.010**	-0.001
	(0.003)	(0.002)	(0.002)	(0.005)	(0.003)
Fam_OWN	0.004**	0.001	0.001	0.013***	0.007**
	(0.002)	(0.002)	(0.002)	(0.004)	(0.003)
C_OWN	-0.003	-0.006**	-0.006**	-0.005	-0.004
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
AGE	-0.181***	-0.091***	-0.102***	0.020	-0.010
	(0.045)	(0.031)	(0.032)	(0.112)	(0.057)
SIZE	-0.110***	-0.047	-0.049	-0.234***	-0.110***
	(0.027)	(0.033)	(0.033)	(0.050)	(0.032)
LEV	0.006***	0.004***	0.005***	0.004**	0.003*
	(0.002)	(0.001)	(0.001)	(0.002)	(0.002)
Constant	0.069	-1.245***	-1.462***	0.912	-0.073
	(0.370)	(0.390)	(0.385)	(0.596)	(0.354)
Industry FE		YES	YES		
Firm FE				YES	
Year FE			YES	YES	
Observations	406	406	406	406	406
R-Squared	0.267	0.564	0.575	0.229	0.178

Robust standard errors are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 10 repeats the same analysis, but replacing state ownership with two variables: SWF ownership and government agency ownership. The results are similar to those for state ownership and the two new variables have a significant negative effect on firm performance, as measured by Tobin's Q. The R-squared value improves slightly due to the increased number of independent variables.

Table 10: Impact of board composition and ownership structure on Tobin's Q with alternative state ownership variables (SWF_OWN and GA_OWN)

Tobin's Q	(1)	(2)	(3)	(4)	(5)
B_SIZE	-0.027	-0.025	-0.029	-0.048*	-0.017
	(0.024)	(0.021)	(0.022)	(0.024)	(0.022)
B_IND	0.007***	0.004***	0.004***	0.003*	0.003**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)
B_DUAL	0.493***	0.106	0.145	0.062	0.041
	(0.121)	(0.111)	(0.120)	(0.080)	(0.078)
B_W	0.013*	0.021***	0.022***	0.001	0.003
	(0.007)	(0.006)	(0.006)	(0.006)	(0.006)
OWN_C	0.007**	0.011***	0.011***	0.007***	0.006***
	(0.003)	(0.002)	(0.002)	(0.002)	(0.002)
F_OWN	0.004	0.003	0.003	0.004	0.005
	(0.004)	(0.003)	(0.003)	(0.006)	(0.004)
SWF_OWN	-0.002	-0.006**	-0.006**	-0.011**	-0.001
	(0.003)	(0.003)	(0.003)	(0.005)	(0.003)
GA_OWN	-0.000	-0.007***	-0.007***	-0.009	0.000
	(0.003)	(0.002)	(0.002)	(0.006)	(0.004)
Fam_OWN	0.004**	0.001	0.001	0.013***	0.007**
	(0.002)	(0.002)	(0.002)	(0.004)	(0.003)
C_OWN	-0.002	-0.005*	-0.005*	-0.005	-0.004
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
AGE	-0.181***	-0.094***	-0.105***	0.018	-0.007
	(0.046)	(0.032)	(0.033)	(0.112)	(0.057)
SIZE	-0.104***	-0.042	-0.044	-0.235***	-0.105***
	(0.029)	(0.034)	(0.034)	(0.050)	(0.033)
LEV	0.006***	0.004***	0.004***	0.004**	0.003
	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)
Constant	0.071	-1.263***	-1.488***	0.882	-0.125
	(0.379)	(0.394)	(0.391)	(0.595)	(0.358)
Industry FE		YES	YES		
Firm FE				YES	
Year FE			YES	YES	
Observations	406	406	406	406	406
R-Squared	0.260	0.558	0.568	0.235	0.169

Robust standard errors are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 11 replicates Table 5 but for only non-financial firms. The results are very similar, with only a few minor differences, namely, weaker significance of the control variables and higher R-squared values. This can be explained by the fact that non-financial companies are less regulated than financial ones are (e.g. banks are exempt from SCA regulations and must adhere to a different governance code issued by the central bank).

Table 11: Impact of board composition and ownership structure on Tobin's Q for the subsample of non-financial firms

	Non-financial firms				
Tobin's Q	(1)	(2)	(3)	(4)	(5)
B_SIZE	-0.021	-0.036	-0.039	-0.022	0.006
	(0.031)	(0.023)	(0.024)	(0.027)	(0.024)
B_IND	0.004**	0.007***	0.007***	-0.001	0.002
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
B_DUAL	0.169	-0.020	0.024	-0.030	-0.023
	(0.104)	(0.086)	(0.099)	(0.083)	(0.079)
B_W	0.023***	0.018**	0.018**	-0.003	0.005
	(0.009)	(0.007)	(0.007)	(0.007)	(0.007)
OWN_C	0.009**	0.012***	0.012***	0.008**	0.008**
	(0.004)	(0.004)	(0.004)	(0.004)	(0.003)
F_OWN	0.006*	0.006*	0.006*	0.004	0.010**
	(0.003)	(0.003)	(0.003)	(0.007)	(0.004)
S_OWN	-0.000	-0.006*	-0.006*	-0.006	0.003
	(0.003)	(0.003)	(0.003)	(0.007)	(0.004)
Fam_OWN	-0.001	-0.002	-0.002	0.014***	0.007*
	(0.002)	(0.003)	(0.003)	(0.005)	(0.004)
C_OWN	0.004	-0.001	-0.001	-0.011**	-0.001
	(0.003)	(0.004)	(0.004)	(0.006)	(0.004)
AGE	-0.073	-0.043	-0.050	0.029	0.021
	(0.055)	(0.045)	(0.046)	(0.137)	(0.069)
SIZE	0.025	-0.020	-0.025	-0.320**	0.039
	(0.031)	(0.036)	(0.037)	(0.126)	(0.053)
LEV	-0.001	0.002	0.002	0.006***	0.001
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Constant	-0.996**	-0.602	-0.786*	1.738	-1.396***
	(0.385)	(0.434)	(0.439)	(1.192)	(0.501)
Industry FE		YES	YES		
Firm FE				YES	
Year FE			YES	YES	
Observations	220	220	220	220	220
R-Squared	0.261	0.480	0.500	0.450	0.245
Number of firms	50	50	50	50	50

Robust standard errors are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 12 reiterates the same exercise for financial firms. The results show that state ownership seems to affect the performance of banks and financial institutions more negatively than that of non-financial firms. Conversely, family ownership positively affects the performance of non-financial firms but does not seem to affect that of financial firms. This is because most banks are state owned.

Table 12: Impact of board composition and ownership structure on Tobin's Q for the subsample of financial firms

	Financial firms				
Tobin's Q	(1)	(2)	(3)	(4)	(5)
B_SIZE	-0.078**	-0.041	-0.047	-0.032	-0.066
	(0.038)	(0.038)	(0.039)	(0.060)	(0.041)
B_IND	0.005**	0.003	0.004*	0.002	0.003
	(0.002)	(0.002)	(0.002)	(0.004)	(0.002)
B_DUAL	0.529**	0.411	0.388	0.085	0.241
	(0.264)	(0.274)	(0.273)	(0.177)	(0.150)
B_W	0.023**	0.026**	0.029**	0.006	0.000
	(0.011)	(0.011)	(0.012)	(0.011)	(0.010)
OWN_C	0.013***	0.014***	0.014***	0.005	0.006*
	(0.004)	(0.004)	(0.004)	(0.004)	(0.003)
F_OWN	-0.004	-0.002	-0.002	0.008	-0.002
	(0.005)	(0.005)	(0.005)	(0.011)	(0.006)
S_OWN	-0.009**	-0.011**	-0.011**	-0.034***	-0.007
	(0.004)	(0.004)	(0.004)	(0.012)	(0.005)
Fam_OWN	0.005	0.004	0.004	-0.001	0.003
	(0.004)	(0.004)	(0.004)	(0.011)	(0.006)
C_OWN	-0.007	-0.011**	-0.011**	-0.001	-0.007*
	(0.005)	(0.005)	(0.005)	(0.005)	(0.004)
AGE	-0.163***	-0.169***	-0.167***	0.158	-0.022
	(0.062)	(0.064)	(0.064)	(0.248)	(0.100)
SIZE	-0.095**	-0.033	-0.030	-0.238***	-0.151***
	(0.040)	(0.073)	(0.072)	(0.065)	(0.042)
LEV	0.008***	0.007**	0.007**	0.005	0.003
	(0.003)	(0.003)	(0.003)	(0.004)	(0.003)
Constant	0.121	-0.897	-1.255*	1.107	0.620
	(0.556)	(0.674)	(0.678)	(1.162)	(0.576)
Industry FE		YES	YES		
Firm FE				YES	
Year FE			YES	YES	
Observations	186	186	186	186	186
R-Squared	0.447	0.497	0.515	0.246	0.373
Number of firms	42	42	42	42	42

Robust standard errors are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Tables 13 and 14 – similar to Tables 11 and 12, respectively – report the regression results for non-financial and financial firms, respectively, by replacing state ownership with SWF ownership and government agency ownership. The results of Tables 13 and 14 confirm the positive effects of foreign ownership and the weak to non-existent effects of state ownership on non-financial firm performance in Tables 11 and 12, respectively.

Table 13: Impact of board composition and ownership structure on Tobin's Q for the subsample of non-financial firms with alternative state ownership variables (SWF_OWN and GA_OWN)

	Non-financial firms				
Tobin's Q	(1)	(2)	(3)	(4)	(5)
B_SIZE	-0.030	-0.039*	-0.042*	-0.024	0.009
	(0.031)	(0.023)	(0.024)	(0.027)	(0.024)
B_IND	0.004*	0.006***	0.006***	-0.000	0.002
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
B_DUAL	0.194*	-0.012	0.030	-0.040	-0.009
	(0.109)	(0.086)	(0.097)	(0.084)	(0.081)
B_W	0.024***	0.019**	0.018**	-0.003	0.005
	(0.009)	(0.007)	(0.007)	(0.007)	(0.007)
OWN_C	0.010**	0.012***	0.012***	0.009**	0.008**
	(0.004)	(0.004)	(0.004)	(0.004)	(0.003)
F_OWN	0.006**	0.005*	0.006*	0.003	0.010**
	(0.003)	(0.003)	(0.003)	(0.007)	(0.005)
SWF_OWN	0.003	-0.003	-0.003	-0.008	0.005
	(0.003)	(0.004)	(0.004)	(0.007)	(0.004)
GA_OWN	-0.002	-0.007**	-0.007*	-0.005	0.002
	(0.003)	(0.003)	(0.003)	(0.007)	(0.004)
Fam_OWN	-0.002	-0.002	-0.002	0.014***	0.007*
	(0.003)	(0.003)	(0.003)	(0.005)	(0.004)
C_OWN	0.004	-0.000	-0.000	-0.012**	-0.001
	(0.003)	(0.004)	(0.004)	(0.006)	(0.004)
AGE	-0.087	-0.049	-0.055	0.021	0.016
	(0.057)	(0.046)	(0.047)	(0.138)	(0.069)
SIZE	0.007	-0.027	-0.031	-0.316**	0.034
	(0.035)	(0.037)	(0.038)	(0.126)	(0.054)
LEV	0.000	0.002	0.002	0.006***	0.001
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Constant	-0.724*	-0.522	-0.686	1.684	-1.351***
	(0.434)	(0.438)	(0.457)	(1.196)	(0.507)
Industry FE		YES	YES		
Firm FE				YES	
Year FE			YES	YES	
Observations	220	220	220	220	220
R-Squared	0.270	0.484	0.503	0.452	0.135
Number of firms	50	50	50	50	50

Robust standard errors are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 14: Impact of board composition and ownership structure on Tobin's Q for the subsample of financial firms with alternative state ownership variables (SWF_OWN and GA_OWN)

	Financial firms				
Tobin's Q	(1)	(2)	(3)	(4)	(5)
B_SIZE	-0.066*	-0.023	-0.028	-0.016	-0.054
	(0.039)	(0.038)	(0.038)	(0.060)	(0.043)
B_IND	0.004*	0.002	0.002	0.001	0.002
	(0.002)	(0.002)	(0.002)	(0.004)	(0.002)
B_DUAL	0.582**	0.479*	0.456	-0.006	0.213
	(0.278)	(0.287)	(0.286)	(0.187)	(0.152)
B_W	0.021*	0.023**	0.026**	0.011	0.000
	(0.012)	(0.011)	(0.012)	(0.012)	(0.010)
OWN_C	0.013***	0.014***	0.014***	0.005	0.006*
	(0.004)	(0.004)	(0.004)	(0.004)	(0.003)
F_OWN	-0.003	-0.001	-0.000	0.001	-0.002
	(0.005)	(0.005)	(0.005)	(0.012)	(0.006)
SWF_OWN	-0.012***	-0.015***	-0.016***	-0.043***	-0.012*
	(0.005)	(0.005)	(0.005)	(0.013)	(0.006)
GA_OWN	-0.008*	-0.009**	-0.009**	-0.002	-0.004
	(0.004)	(0.004)	(0.004)	(0.026)	(0.005)
Fam_OWN	0.005	0.004	0.004	-0.000	0.003
	(0.004)	(0.004)	(0.004)	(0.011)	(0.006)
C_OWN	-0.007	-0.011**	-0.012**	-0.003	-0.007*
	(0.005)	(0.005)	(0.005)	(0.005)	(0.004)
AGE	-0.181***	-0.195***	-0.185***	0.154	-0.047
	(0.062)	(0.065)	(0.065)	(0.247)	(0.103)
SIZE	-0.083**	-0.010	-0.007	-0.243***	-0.140***
	(0.040)	(0.075)	(0.076)	(0.064)	(0.043)
LEV	0.009***	0.007**	0.007**	0.004	0.003
	(0.003)	(0.003)	(0.003)	(0.004)	(0.003)
Constant	0.095	-1.024	-1.337*	1.068	0.630
	(0.558)	(0.697)	(0.703)	(1.158)	(0.579)
Industry FE		YES	YES		
Firm FE				YES	
Year FE			YES	YES	
Observations	186	186	186	186	186
R-Squared	0.451	0.505	0.523	0.258	0.370
Number of firms	42	42	42	42	42

Robust standard errors are reported in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Chapter 5: Conclusion

This dissertation tests the impact of two sets of corporate governance variables, notably four variables related to board structure – board size, board independence, chief executive officer (CEO) duality, and the presence of women on boards – and five variables related to ownership structure – ownership concentration, foreign ownership, state ownership, family ownership, and cross-ownership – and their impact on corporate governance and firm performance, measured using three variables: Tobin's Q, the return on assets (ROA), and the return on equity (ROE). Three control variables are added to the regressions to isolate noise and fixed and variable effects are introduced to check the robustness of the results. Ownership concentration is measured three different ways (owners of 5% of outstanding shares or more and the three largest and five largest owners, respectively) and state ownership is proxied by three variables (total government ownership, sovereign wealth fund ownership, and government agency ownership).

As summarized in the literature review, the studies and research we review point to the impact of these measures on firm performance in other jurisdictions. We are therefore interested in exploring their impact on listed firms in the United Arab Emirates (UAE), since few studies have attempted to do so thus far, based on a review of the corporate data from the Dubai Financial Market and Abu Dhabi Exchange from 2008 to 2017.

The results are persistent, regardless of the model or variables, whether the subsample consists of financial firms or not and with or without fixed and variable effects. The results and a brief rationale are summarized in Table 15.

Table 15: Summary of the results

Variable	Result	Indication
Board Size	No significant effect	Board sizes are comparable and usually have a very strong leader, regardless of size and the fact that larger boards are associated with larger and older firms.
Board Independence	Positive and highly significant	Independent board members are not personally vested in the firm.
CEO Duality	Mostly nonsignificant	Duality is rarely observed.
Women on Boards	Positive and significant	In line with other empirical works.
Ownership concentration	Positive and highly significant	Large owners are present in the UAE and play a strong role on boards and in companies to protect their vested interests.
Foreign Ownership	Mostly nonsignificant	Foreign ownership limits are very low and do not provide foreign owners sufficient power to effect considerable change.
State Ownership	Moderate negative significance	Government interests are more socially oriented than profit oriented and governments are usually more lax than competitive businesses are.
Family Ownership	Moderate positive significance	Families are weakly present in public companies in the UAE but more strongly present in large private firms.
Cross-Ownership	Negative weak significance	In line with other empirical works, it empowers minority shareholders with minimum holdings.
Firm Size	Significant negative effect	Larger firms are harder to control than smaller ones are, especially with dispersed ownership.
Firm Age		Older firms are less disciplined, due to older practices and less use of contemporary policies.
Firm Leverage	Significant positive effect	Due to heavy reliance on bank debt; hence, more bank discipline regarding the board and management to meet debt obligations.

The results did not find the ROA and ROE to be good measures of firm performance in regards to corporate governance structures. The results for both are nonsignificant and the R-squared measures are very small. This means that the corporate governance variables have very weak explanatory power for firm returns whether compared to assets and firm equity. This unexpected result needs to be further examined in future research to determine whether it is related to the policy, model, quality of data or estimation technique.

Other conclusions drawn from the presentation and discussion of both the UAE regulations and practice of corporate governance, as well as the regional analysis and literature review preceding it, have important policy implications for the competitiveness of UAE's capital markets. UAE corporate governance practices are in line with international practices, demonstrating that sound corporate governance practice is portable across borders. Going forward and in terms of policy, it would be useful for the Securities and Commodities Authority (SCA) to conduct a comprehensive review of corporate disclosures to identify areas of strength as well as weakness, so that these can be integrated in revised versions of the code. Similarly, the central bank needs to revise its guidance for the banking sector in line with the SCA code and Basel Committee requirements. Our review of corporate disclosures and data related to the code highlights the need to standardize reported information and to make sure that all listed companies provide substantive reports on the required items.

The foregoing analysis of the UAE corporate governance resolutions (that were issued by virtue of the CCL law) vis-à-vis other codes in the Gulf Cooperation Council region proposes a number of areas where the code can be revised and

improved. For instance, the definition of an independent director can be further strengthened, which is essential now that the regulator wishes more rigorous compliance with the code and the UAE is seeking to attract greater foreign investment. The regulator's enforcement capacity should continue to be strengthened, as highlighted by the Arabtec, Drake & Scull, and infamous Marka cases, and greater efforts at monitoring transactions should be made to reassure market participants. Such reassurance can be effected by conducting board evaluations and performance reviews; mandating board committees, such as a risk management committee; enhancing the role of the chief risk officer; and assigning the lead responsibility to the audit committee and independent directors. This work also sheds light on the management of conflicts of interest, such as in related-party transactions. The UAE New Commercial Companies Law of 2015 clearly stipulates that a public joint stock company may not undertake transactions with related parties of a value in excess of 5% of the share capital of said company (Art. 152 of the New Commercial Companies Law). The case of Marka's public joint stock company was a poor implementation of this law!

More research needs to be conducted on foreign ownership and the presence of women on boards. This can be carried out by comparing regressions on companies with low foreign ownership limits against those on companies with higher foreign ownership limits, as stated in their articles of incorporation. Companies with women on the board can be easily compared with companies without women on the board via the use of dummy variables to determine the value added by the presence of women on boards.

Family ownership can be further investigated by comparing the performance of public companies to that of the numerous large family companies in the UAE. Another important variable that can be checked is insider ownership, especially when ownership is concentrated in the hands of executive management. Such a variable can demonstrate the invisible hand effect, where shareholders benefit from the CEO serving their interests and from their assets, along with their personal time and effort, being vested in the firm.

The data cover the period from 2008 to 2017, which includes two corporate governance regime changes, with notable differences. One can see the effects of SCA policy changes in these codes by comparing the data under each code with the data under other codes. This leads to a limitation of this work where the likelihood of a regime change can be predicted in the first few years of the implementation of new corporate governance regulations (i.e. in 2009 and in 2016), to the point where companies are more accustomed to implementing earlier regulatory requirements.

This research highlights major shortcomings in corporate governance implementation in publicly listed stocks in the UAE markets. It forms a good foundation for further research to develop policies tailored to the context of UAE markets and suitable mechanisms to adopt such policies and regulations.

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