Corporate Governance and Firm Performance in Listed Companies in the United Arab Emirates

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Declaration

I, Khaled Otman, declare that the PhD thesis entitled **Corporate Governance and Firm Performance in Listed Companies in the United Arab Emirates** is no more than 100,000 words in length including quotes and exclusive of tables, figures, appendices, bibliography, references and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

Signature: ________________ Date: ________________

Dedication

It is my pleasure to dedicate this study to my supervisors;

Professor, Colin Clark

&

Professor, Anona Armstrong

For their friendly supervision and encouragment

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IN THE NAME OF GOD, THE MERCIFUL, THE COMPASSIONATE

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Abstract

Corporate governance has received much attention in recent years and has been a growing topic for debate in the public domain in both developed and developing countries. This is mainly because of the many financial scandals and failures that have occurred in a number of countries. Good corporate governance is now considered crucial for regulating companies and enhancing their performance. However, the effects of corporate governance on firm performance may vary in developed and developing countries based on cultural, economic and social factors. Therefore, much of the current research now focuses on investigating corporate governance from the point of view of developing countries.

The main objective of this research is to understand corporate governance and the effects of corporate governance on firm performance in a unique economic, political and social context such as the Middle East and North Africa (MENA) region, and particularly the United Arab Emirates (UAE). Few existing studies have dealt with developing countries such as the MENA region, particularly from a cultural, economic and social perspective, and no emphasis has been placed on the relationship between corporate governance principles and mechanisms with firm performance in these regions. Despite the importance of the subject matter, no existing research has focused on the development of a proper model of corporate governance in the UAE and MENA countries based on the Organisation of Economic Cooperation and Development (OECD) Principles of Corporate Governance.

The conceptual framework of this research describes how good corporate governance—both principles and mechanisms—can affect firm performance. In the framework, corporate governance principles are represented by the rights and equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board. The corporate governance mechanism variables are board size, leadership structure, board composition and audit committee independence. The dependent variable of firm performance was assessed by measuring financial performance (return on assets and return on equity) and market value (Tobin's Q). This study uses both the agency and stakeholder theories to investigate corporate governance and the extent to which corporate governance can affect firm performance in the UAE.

To accomplish the research objectives, a quantitative research method (questionnaire and secondary data) was adopted. The questionnaire survey was used to explore corporate governance in the UAE by obtaining and analysing the various perceptions of stakeholders. Secondary data were obtained from the annual reports of 80 listed companies on the Dubai Financial Market (DFM) and the Abu Dhabi Securities Exchange (ADX) to measure corporate governance mechanisms and firm performance variables for 2010 and 2011. The selection of companies was determined by the availability of data for both years. The data were analysed using the Statistical Package for the Social Sciences (SPSS) to obtain quantitative measures of descriptive statistics, Pearson and Spearman correlations, and non-parametric tests (Kruskal–Wallis and Mann–Whitney tests). In terms of the role of corporate governance principles and mechanisms in improving firm performance, two empirical models were constructed and a set of hypotheses was formulated. Ordinary least squares (OLS) and generalised least squares (GLS) multiple regression tests were performed with the help of the Stata 13 statistical package.

The findings of the questionnaire indicate that corporate governance is important for all stakeholders, and corporate governance based on the stakeholder view is appropriate for the UAE. The results of this study reveal that corporate governance principles have been implemented in listed companies, and culture of the UAE community are regarded as possibly the main barrier, while the wide adoption of international accounting standards is considered the most effective enabler. The significant differences between certain items in the questionnaire represent the variance in levels of agreement. Descriptive statistics resulting from the analysis of the secondary data show that good corporate governance mechanisms have been adopted in listed companies in the UAE. This evidence confirms that most listed companies have complied with the code of corporate governance in the country, reflecting the successful introduction of the corporate governance code in 2007, which was reformed in 2009 in the UAE.

The results of the correlation test and regression analysis indicate the effects of corporate governance principles and mechanisms on firm performance. This study supports the argument that when firms implement good corporate governance, the result is improved firm performance (financial performance and market value). This study provides support for the agency theory perspective that corporate governance mechanisms may mitigate agency problems, leading to an improvement in the performance of the company. In addition, the findings can be interpreted in line with the stakeholder theory, which complies with the OECD Principles of Corporate Governance, as good corporate governance can facilitate a good relationship between management and stakeholders, thereby enhancing the firm's performance.

It should be noted that the findings established in this study are likely to prove useful to all stakeholders, including policymakers, regulators, academics and the community in general. The study's findings will also be beneficial to other Middle Eastern countries and their policymakers, as their social, political and economic environments are similar. As a result, this study, with its emphasis on developing a corporate governance model, makes a significant contribution to the body of knowledge on governance in emerging economies such as the MENA region. Finally, results from the study have theoretical and practical implications for the listed companies on the DFM and the ADX. Based on the conclusion and implications discussed, this study presents several recommendations for future research.

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List of Abbreviations

AAA	Accountants and Auditors Association
ACAC	American Council for Accredited Certification
ADCCG	Abu Dhabi Centre for Corporate Governance
ADCCI	Abu Dhabi Chamber of Commerce and Industry
ADX	Abu Dhabi Securities Exchange
AED	Arab Emirates Dirham
AIAL	Arab Institute for Accountants and Legal
AIMA	Australian Investment Managers Association
APRA	Australian Prudential Regulation Authority
ASX	Australian Stock Exchange
CCG	Center of Corporate Governance
CLERP	Corporate Law Economic Reform Program
CGI	Corporate Governance Index
CalPERS	California Public Employees' Retirement System
CFA	Chartered Financial Analyst
CGI	Corporate Governance Index
DIFC	Dubai International Financial Centre
DIFCC	Dubai International Financial Centre Courts
DFM	Dubai Financial Market
DFSA	Dubai Financial Services Authority
ECPA	Emirates Certified Public Accountant
EICPA	Emirates Institute of Certified Public Accountant
ESCA	Emirates Securities and Commodities Authority
FRC	Financial Report Council

ESM	Emirates stock market
FCCI	Federation of UAE Chambers of Commerce and Industry
FNC	Federal National Council
FSC	Federal Supreme Council
GLS	generalised least squares
GDP	Gross Domestic Product
IFC	International Financial Centre
IMF	International Monetary Fund
IIA	Institute of Internal Auditors
LSE	London Stock Exchange
ME	UAE Ministry of Economy
MCI	Ministry of Commerce and Industry
MENA	Middle East and North Africa
MR	Ministerial Resolution
IOD	Mudara—Institute of Directors
NYSE	New York Stock Exchange
NACD	National Association of Corporate Directors
OECD	Organisation for Economic Cooperation and Development
OLS	ordinary least squares
P/E	price–earnings
PWG	Proxy Working Group
PJSC	Public Joint Stock Companies
ROA	return on assets
ROE	return on equity
SEC	Securities and Exchange Commission
SME	small and medium enterprises
SPSS	Statistical Package for the Social Sciences

TIAA–CREF	Teachers Insurance and Annuity Association–College Retirement Equities Fund
UAE	United Arab Emirates
UK	United Kingdom
US	United States of America

Chapter 1: Introduction

1.1 Background

Corporate governance has become a concern in developing economies since the financial scandals in the past, which have resulted in demands for improved corporate governance practices (Baydoun et al., 2013). Good corporate governance has become essential for improving firm performance, ensuring investor rights, enhancing the investment atmosphere and encouraging economic development (Braga-Alves & Shastri, 2011; Price, Roman & Rountree, 2010). Although attention has been given to corporate governance in developing countries, many of these countries still suffer from a lack of appropriate governance (Ekanaakey, Perera & Perera, 2010). This is seen as a contributing factor to financial crises (Tarraf, 2011). Therefore, corporate governance in both developed and developing countries has attracted considerable attention in academic research (Mallin, 2004; Reed, 2002; Clark, 2004; Solomon & Solomon, 2004; Sternberg, 2004; Weir & Laing, 2001).

Corporate governance is the rules and practices that govern the relationship between the managers and shareholders of a corporation, as well as its stakeholders. It contributes to growth and financial stability by reinforcing market confidence, financial market integrity and economic efficiency (Organisation for Economic Cooperation and Development (OECD), 2004). As a result, corporate governance distributes the rights and responsibilities among the various participants in a company, such as the board, managers, shareholders and other stakeholders; it also ensures that rules and procedures for making decisions regarding corporate affairs are clear (Feleaga et al., 2011). Corporate governance practice is considered an internal mechanism for monitoring management. Good corporate governance is an effective tool for helping a firm to attain better performance (Ghabayen, 2012).

The concept of corporate governance in developed economies has been explained using various theories (Solomon, 2010). According to the agency theory, the purpose of corporate governance is to reduce potential conflicts between managers and the interests of the shareholders (Jensen & Meckling, 1976). The stakeholder theory also plays an essential role in explaining governance structures because companies are made aware of all stakeholders rather than only the shareholders (Freeman, 1984). Donaldson and Preston (1995) have argued that the stakeholder theory can help to maximise firm performance and the combined benefits of all stakeholders by considering the interests of all stakeholders.

An increasing number of empirical studies have been conducted regarding the practice of corporate governance in developing countries and emerging markets in many parts of the world (Arun & Turner, 2004). Corporate governance has been investigated in Cyprus (Krambia-Kapardis & Psaros, 2006), Kenya (Mulili & Wong, 2011), Bahrain (Hussain & Malian, 2002), Taiwan (Solomon et al., 2003), Nigeria (Olayiwola, 2010), Turkey (Gurunlu, 2009), five Arabian countries (Baydoun et al., 2013), Indonesia (Junarsin & Ismiyanti, 2009), Ukraine (Muravyev, 2010) and Egypt (Bremer & Elias, 2007). However, Shleifer and Vishny (1997) have stated that corporate governance practice is weak in developing countries, and they have suggested that better firm performance could be achieved by better governance. This means that good corporate governance could significantly contribute to enhancing firm performance because it produces better management and increased allocation of the company's resources (Keong, 2002).

Many studies have investigated the relationship between corporate governance and firm performance (Jensen & Meckling, 1976; Jensen, 1993; Adams & Mehran, 2008; Haniffa & Hudib, 2006; Bhagat & Black, 2001; Gompers, Ishii & Metrick, 2003; Klapper & Love, 2004; Ramdani & Van Witteloosuijn, 2009; Trabelsi, 2010; Griffin et al., 2014). It has been widely recognised by researchers that corporate governance plays an important role in improving firm performance. For example, Bryan, Liu and Tiras (2004), Chhaochharia and Grinstein (2007), Dey (2008) and Mishra and Mohanty (2014) have highlighted that firm performance can be significantly affected by its corporate governance rules and practices. However, in Middle East and North African (MENA) countries and the United Arab Emirates (UAE) in particular, there is a lack of studies that investigate the effect of corporate governance on firm performance, which justifies the purpose of this study.

Academically, there has been limited research on corporate governance in the context of emerging economies, and to date, there has been a scarcity of studies on corporate governance practices in the context of the UAE. Therefore, the current research addresses this current gap in the UAE, which is a developing country with an emerging capital market. The purpose of this research is twofold. Firstly, due to the few studies regarding corporate governance in developing countries, and specifically in the UAE, compared with developed countries, this thesis presents evidence concerning corporate governance practices. Secondly, it investigates the relationship between corporate governance practices and firm performance of listed companies in the UAE.

In light of the issues raised above, the main aim of this research is to examine the perceptions of corporate governance practice in developing countries and the effect of corporate governance on firm performance. The corporate governance code in the UAE is based on the OECD Principles of Corporate Governance (2004). The general area of research is governance, and the specific focus is corporate governance practice and its effect on firm performance in a developing country, namely the UAE. The aim of the research is to improve governance in the UAE. To accomplish this aim, the research objectives are to:

- explore the nature and extent of the development of corporate governance practices in the context of the UAE business environment
- identify corporate governance as understood in the UAE context
- examine stakeholders' perceptions concerning corporate governance principles in listed companies in the UAE
- identify the possible obstacles to, and enablers of, the implementation of good corporate governance in the UAE
- analyse the corporate governance mechanisms of the listed companies and their extent of compliance with the corporate governance code among listed companies in the UAE
- determine the relationships between corporate governance practices and firm performance in listed companies in the UAE
- develop a corporate governance model that is appropriate for the UAE and that includes corporate governance principles and considers all stakeholders' interests.

To provide a basis for the current investigation, the structure of this chapter is organised as follows: Section 1.2 provides an overview of the context of the study; Section 1.3 discusses the conceptual framework used to guide the study; Section 1.4 presents the methodology adopted in the study; Section 1.5 explains the contribution to the current body of knowledge; Section 1.6 describes the significance of the study; and Section 1.7 outlines the structure of the thesis.

1.2 Context of the Study

Over the past few decades, the issue of corporate governance has given rise to much debate regarding its efficiency (Kiel & Nicholson, 2003) due to the failure of businesses such as Enron and World Com (Du Plessis et al., 2011). As a result, the practice of corporate governance has been dominated by developments in Western countries. For instance, the United States (US) established the Sarbanes–Oxley Act in 2002, which required major changes to the corporate governance rules adopted by the New York Stock Exchange (NYSE) (Dragomir, 2008); the United Kingdom (UK) Combined Code (2003) reviewed the report of Turnbull, Higgs and Smith (Mallin, 2011); and the Australian Stock Exchange (ASX, 2003) formed the ASX Corporate Governance Principles after crises in several large companies, such as HIH Insurance in 2002 (Farrar, 2008; Habib & Azim, 2008).

Many international organisations, such as the World Bank and the OECD, have encouraged all countries to implement international standards of corporate governance. They have also developed guidelines for corporate governance (Aguilera & Cuervo-Cazurra, 2009). These principles provide a framework for good corporate governance that consists of elements such as legislation, regulation, voluntary commitments and business practices (Okpara, 2011). However, the OECD has stated that the content and structure of this framework may need to be adjusted based on the unique situation of each country, including changes in business circumstances, history and customs (OECD, 2004).

Therefore, many countries have improved their codes for corporate governance to encourage companies to implement good corporate governance based on the OECD Principles of Corporate Governance, which provide a general framework for most of these countries (Caliskan & Icke, 2011). The OECD has shown that corporate governance is an important step for building market confidence and encouraging more stable and long-term international investment (OECD, 1999). The OECD Principles were set up with four fundamental concepts in mind: responsibility, accountability, fairness and transparency (Harabi, 2007). The Principles allow for diversity of rules and regulations and are primarily concerned with listed companies. They were organised into five sections in 1999 and reviewed in 2004: the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibility of the board (OECD, 2004).

In developing countries, supporting efficient and effective corporate governance has become a priority because it can enhance managerial excellence and assist businesses with poor corporate governance structures to increase capital and attract foreign investors (Marn & Romuald, 2012). However, Chen, Li and Shapiro (2011) have argued that even if these developing countries adopt good codes, based on the OECD Principles, they will not necessarily have good corporate governance, as many problems have affected corporate governance in developing countries, including weak legal controls, uncertain economies, poor investor protection and government intervention (Tsamenyi, Enninful-Adu & Onumah, 2007). In addition, emerging markets do not have the characteristics needed to deal with corporate governance issues, such as long-established financial institution infrastructures (McGee, 2009). The literature suggests that weak corporate governance leads to poor performance and frustration among stakeholders (O'Regan et al., 2005).

Clearly, less developed countries need to adopt an effective corporate governance structure to solve these problems and encourage new practices for implementing the different features of corporate governance in developing economies (Mulili & Wong, 2011). In emerging-market countries, enhancing corporate governance could provide many essential public policy objectives. For example, good corporate governance reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, improves firm performance, and enhances the capital market (Al-Matari et al., 2012). Firms could gain from implementing the recommended governance policies, such as better access to external finance and higher firm performance (Black, Jang & Kim, 2006). The ability of the MENA countries to benefit from these advantages depends on how quickly and effectively they can resolve their socioeconomic issues, strengthen their capital market, and establish ethical and overall corporate governance standards.

Although corporate governance issues arise in public debates (Harabi, 2007), the MENA countries are still lagging behind with respect to the OECD Principles (Saidi, 2004). In addition, the notion of a corporate governance system in these countries is less widespread than in Western countries (Schieffer, Lessem & Al-Jayyousi, 2008). However, the global crisis in 2008 highlighted the need to improve corporate governance in the MENA region. As a result of this crisis, significant pressure led to the application of corporate governance principles, which were generally considered the solution for the problems occurring in these countries' market environments. In addition, widespread discussion on this topic has increased awareness in the MENA region regarding the need to develop a system of corporate governance to enhance financial transparency (Leigh, 2011). Therefore, in this regard, the MENA region has prioritised the codes of corporate governance to produce better economies (Binder, 2011) and confront ongoing challenges, such as enhancing job quality, promoting the private sector, expanding gender equality, and improving access to, and the quality of, education over the next few decades (Nabli, 2008).

In the UAE, 'corporate governance is an emerging issue' (Obay, 2009, p. 44). Aljifri and Moustafa (2007) have recommended that corporate governance codes and internal control mechanisms should be developed by the policymakers in the UAE. In addition, corporate governance practice is still in the early stages, with a new, small stock market in the UAE. Consequently, understanding corporate practices and improving standards are high on the agenda for the UAE, as well as many other developing countries. In the last three decades, the UAE government has introduced reforms to restructure the economy. These reforms have included the development of many companies since the mid 1970s and two governmental stock exchanges, located in Dubai and Abu Dhabi, comprising the UAE stock market started in 2000 (Aljifri & Moustafa, 2007).

In 2006, the Hawkamah Corporate Governance Institute was launched in Dubai by the International Financial Centre (IFC) to encourage corporate governance codes in the UAE and other MENA countries (Shahram, 2008). There has been an attempt to incorporate accepted corporate governance principles in the UAE by initiating new rules (Travers, 2010). For instance, the Emirates Securities and Commodities Authority (ESCA) established the UAE Code of Corporate Governance for listed companies in 2007 based on the OECD Principles (Koldertsova, 2011; Pierce, 2008). In addition, the code of corporate governance was published in 2009 to improve corporate governance rules and regulations for the UAE Public Joint Stock Companies based on the OECD Principles; this replaced the corporate governance code that was established in 2007 (Bainbridge & Saliba, 2010).

Clearly, corporate governance is now becoming an important topic for the UAE government (Ramakrishnan, 2009). This view is consistent with Ahmad (2010), who has stated that corporate governance in the UAE has been given more attention as one of the effects of the global financial crisis. Since then, the UAE has begun to join the global economy through the application of international standards of corporate governance (Hussainey & Aljifri, 2012) because corporate governance plays an essential role in the difficult process of long-term transformation in all developing, transition and emerging-market countries (Oman, Fries & Buiter, 2004).

In the literature, much research has been conducted on the relationship between good corporate governance and firm performance (Klapper & Love, 2004; Wang & Sami, 2011; Ikäheimoa, Puttonen & Ratilainen, 2011; Bauer et al., 2008; Brown & Caylor, 2004; Farag, Mallin & Ow-Yong, 2014; Al-Najjar, 2014). However, few investigations have focused on corporate governance and firm performance in the context of a developing country such as the UAE. The prior literature on the MENA region has emphasised the need to investigate the relationship between governance practices and the performance of firms in these countries (Piesse, Strange & Toonsi, 2012; Hassan, 2011; Shanikat & Abbadi, 2011; Hasan, Kobeissi & Song, 2011). Moreover, there is a general need for more research on the practice of corporate governance in developing countries (Tsamenyi & Uddin, 2008).

This research is motivated by several considerations. First, the UAE is an emerging economic region that has been strongly influenced by the unique economic and social environment in the MENA region. It has witnessed phenomenal economic growth over a short period. The UAE has an open economy with a high per-capita income and a sizable annual trade surplus. Its wealth is based on its oil and gas output, and the fortunes of the economy fluctuate with the prices of those commodities (World factbook, 2006). The economy of the UAE is the second largest in the MENA region, with a gross domestic product (GDP) of US $383 billion in 2012 (World Bank, 2012). Therefore, this country has become a key focus for personal and institutional investors in the past decade (Obay 2009).

The UAE is one of the new financial markets established in the MENA. The UAE government has put more effort into keeping its financial markets (the Dubai and Abu Dhabi financial markets) safe, stable, transparent and protected by the law. This was a response to the global financial crisis and, afterward, to the crisis in the UAE—known as the Dubai crisis—that resulted in a collapse of companies in Dubai in 2008 (Ghabayen, 2012). Consequently, the implementation of a corporate governance code is viewed by the UAE government as a priority in enhancing its financial markets and building up confidence to attract and sustain investments.

The Corporate Governance Regulation has been reformed by the UAE Security and Commodity Market Authority (ES&CA) during the last decade. In early 2007, the ES&CA introduced the UAE Code of Corporate Governance (SCA decision R/32 of 2007). In 2009, the ES&CA issued a new Code of Corporate Governance to highlight the need to improve corporate governance in the UAE. This code asked listed corporations in the UAE to publish corporate governance information in 2010. This code has further motivated this study to investigate the code's effectiveness in ensuring improved governance standards and enhancing firm performance in these listed companies. Therefore, it would be interesting to examine the extent that the listed companies in the UAE are complying with the code of corporate governance.

Most previous research studies on corporate governance are limited to studying what occurs in developed economies or large emerging economies. It seems, therefore, that less developed and emerging economies, such as those of the MENA countries—and that of the UAE, in particular—are very much under-investigated in the literature. Therefore, this research will try to fill this gap by looking at the corporate governance principles, the internal corporate governance mechanisms and their impact on firm performance. Although this study has specific relevance to the needs of the UAE business environment, it is understood that many other developing countries, especially the MENA countries, share similar social, political and economic environments.

Although the literature on corporate governance has recently included an increasing number of studies that explore governance practices in developing countries, there is a lack of research that investigates the possible barriers that listed companies in the UAE face to ensure full compliance with the implementation of a corporate governance code, or that investigates the enablers to ensure full compliance with a corporate governance code. Moreover, as an emerging economy, the UAE is attempting to benefit from raw material and its location in order to develop its economy and build a strong and attractive environment for investment. There is limited research on corporate governance in MENA countries in general, which have different economic and political systems, as well as different cultures and social attributes, and the UAE in particular. Therefore, the main contribution of this study is that it will provide an understanding of the various perspectives concerning corporate governance and its effect on the performance of companies in the UAE. The purpose of this study in the UAE is to answer the following research questions:

- How is corporate governance understood by stakeholders in the UAE?
- What is the corporate governance structure of listed companies in the UAE, and to what extent do listed companies in the UAE comply with the corporate governance code?
- What are the perceptions of stakeholders concerning the current state of the implementation of corporate governance in the UAE?
- Is there a relationship between corporate governance and the performance of listed companies in the UAE?
- What are the possible obstacles/enablers to the implementation of the best corporate governance in the UAE?

1.3 Conceptual Framework

This study examines the relationship between corporate governance practice and firm performance in the context of companies listed on the Abu Dhabi Securities Exchange (ADX) and the Dubai Financial Market (DFM) in the UAE. Based on the literature review, a conceptual framework was developed, as described in Chapter 5 of this study. Figure 5.1 shows the conceptual framework of the study. It includes corporate governance as the independent variable, and it shows corporate governance principles and corporate governance mechanisms. Firm performance in this study is measured using return on equity (ROE), return on assets (ROA) and Tobin's Q ratio as the dependent variable. The main corporate governance theories upon which this study is based are the agency and stakeholder theories.

The conceptual framework of the study is designed to address the relationships between governance practices and the performance of listed companies in the UAE. The hypotheses formulated in this study are based on the relationships between corporate governance and the firm performance of listed companies. In the conceptual framework, corporate governance principles were established in 1999 and reformed in 2004 (shareholders' rights, the equitable treatment of shareholders, stakeholders' roles disclosure and transparency), and the roles of the board of directors (OECD, 2004) are based on the stakeholder theory. The OECD principles of corporate governance argue that a company should consider not only shareholders, but also other stakeholders in the long term.

The corporate governance mechanisms (board size, leadership structure, board composition and audit committee independence) based on the corporate governance code of 2009 are used as the monitoring mechanisms of the management and the accountability to shareholders, which are in line with the agency theory perspective. Firm size and leverage have been shown to affect the relationship between corporate governance and firm performance (Lehn, Patro & Zhao, 2009; McConnell & Servaes, 1995; Short & Keasey, 1999; Weir, Laing & McKnight, 2002; Kyereboah-Coleman & Biekpe, 2006; Haniffa & Hudaib, 2006). Therefore, this study uses firm size and leverage as the control variables.

To achieve the main research objective of the study, five main hypotheses have been developed (see Chapter 5) to examine the nature of the relationship between corporate governance practice and firm performance. The determinants of corporate governance—that is, the measures of corporate governance practice—have not been developed formally in the UAE. Consequently, this study attempts to fill this gap by developing a corporate governance principles index that is appropriate for listed companies in the UAE. In addition, this research measures the corporate governance mechanisms that are used by listed companies and based on the 2009 code of corporate governance. Two empirical models are used to identify the relationship between corporate governance principles and firm performance, and between corporate governance mechanisms and firm performance. The corporate governance measures are correlated with measures of firm performance, implying that corporate governance practice is linked to firm performance such that corporate performance is enhanced by good corporate governance practice (Jensen, 1993; Dao, 2008; Chan & Li, 2008; Rashid et al., 2010; Cheung et al., 2011).

1.4 Methodology of the Study

The main purpose of this research is to explore corporate governance and its effect on the performance of listed companies in the UAE. The quantitative method is used to gather data; it involves collecting primary data in a structured questionnaire to measure the corporate governance principles, and secondary data from the annual reports of listed companies on the DFM and ADX to measure corporate governance mechanisms and firm performance variables. This study has been undertaken in two phases: a self-administrated questionnaire survey and an analysis of secondary data. A survey has been conducted to collect data regarding the corporate governance principles in the UAE for the same companies that have been analysed to measure firm performance. This method has been used in many studies on corporate governance (Hussian & Malian, 2002; Solomon et al., 2003; Kaur & Mishra, 2010; Goodwin & Seow, 2002). The structured questionnaire has been designed using Likert scales to determine the perceptions concerning the current state of corporate governance principles (Kumar, 2011).

The questionnaire is based on the OECD Principles of Corporate Governance and the literature review relates to corporate governance in accordance with the rules and regulations of corporate governance in the UAE. The population of this study comprises all listed companies in the UAE, and the participants in the questionnaire comprise five stakeholder groups: senior managers/CEOs, members of boards, members of audit committees, accountants and internal auditors in listed companies in the UAE. These groups are similar to sample groups used in prior research on corporate governance (Goodwin & Line Seow, 2002; Wanyama, Burton & Hellar, 2009; Solomon et al., 2003; Okpara, 2011). The questionnaire is divided into five sections: concepts of corporate governance; OECD Principles of Corporate Governance; obstacles to implementation; enablers of corporate governance practice in the UAE; and demographic information of participants.

This research utilised common and similar corporate governance mechanisms (Board size, leadership structure, Board composition and Audit committee independence) that have been used in previous literature between corporate governance and firm performance (Brown & Caylor, 2004; Yermack, 1996; Hutchinson & Gul, 2003; Coles, McWilliams & Sen, 2001; Weir, Laing & McKnight, 2002; Brickley, Klein, 2002a, b;

Brickley, Coles & Jarrell, 1997). Corporate governance mechanisms are measured using four variables. Board size is measured by counting the number of appointed elected members on the board (Yermack, 1996; Eisenberg, Sundgren & Wells, 1998). For the leadership structure, 0 indicates no separation of leadership, while 1 indicates a separation of the chairman and CEO responsibilities (Haniffa & Hudaib, 2006; Heenetigala & Armstrong, 2011). Board composition is calculated as the percentage of the proportion of non-executives to the total number of members on the board (Baysinger & Butler, 1985; Rhoades, Rechner & Sundaramurthy, 2000). Audit committee independence is measured as the number of independent members compared to the total number of audit committees on the board (Chan & Li, 2008; Kirkpatrick, 2009).

In addition, this study investigates the effect of corporate governance principles and corporate governance mechanisms on the performance of listed companies in the UAE. Two empirical models are constructed, and a set of hypotheses is formulated. These models are examined by regression and employ a sample that includes all firms listed on the DFM and ADX from 2010 to 2011. The choice of firms is based on the availability of data. The performance of the listed companies is determined using three measures: ROE, ROA and Tobin's Q ratio. These measures are considered proxies for accounting returns and market returns because they are common measures of firm performance. These measures have been used in previous research on corporate governance and firm performance (Al Mutairi & Hasan, 2010; Haat, Rahman & Mahenthiran, 2008; Tariq & Butt, 2008; Ehikioya, 2009; Jhunjhunwala & Mishra, 2009). This study utilised the period, 2010 to 2011 because the code of corporate governance in the UAE became mandatory in 2010.

The SPSS and Stata statistical programs are used to calculate the descriptive, parametric and non-parametric, and econometric tests. The descriptive findings are presented in this study using frequencies, percentage, rank, mean, standard deviations, and skewness and kurtosis (Field, 2009). Two non-parametric tests (the Kruskal–Wallis test and the Mann–Whitney test) are used to determine whether there are any significant differences among the five groups (Curwin & Slater, 2008). The relationship between governance and firm performance in this study is tested using two empirical models as discussed in Chapter 6. Econometric tests are used to accept or reject the alternative hypotheses of the study, including the ordinary least squares (OLS) and generalised least squares (GLS) regression techniques (Gujarati, 2003; Baum, 2006; Greene, 2008).

1.5 Contribution to the Current Knowledge

This study makes several contributions to the corporate governance literature in general and the UAE in particular. It explores the corporate governance practices in listed companies in the DFM and ADX in the UAE. Previous studies have examined corporate governance in both developed and developing nations, as well as the relationship between corporate governance practice and firm performance in developed countries, but few have studied this relationship in developing countries such as the MENA region. Therefore, this study represents an important contribution to the corporate governance literature in the UAE and the MENA region in general.

One of the major theoretical contributions of this study is to the existing debate of the appropriate model of governance in developing countries, which is discussed in Chapters 3 and 9. There has been no clear answer regarding whether the stakeholder or shareholder would be an appropriate model for developing countries, especially for MENA countries such as the UAE. However, the findings of this study suggest that the stakeholder perspective of governance is more appropriate for developing countries such as the UAE. Consequently, it provides useful insights for government agencies regarding the need to implement a good corporate governance framework.

There is an increasing trend in the literature to measure the extent to which companies are complying with international standards of corporate governance such as the OECD Principles of Corporate Governance, but none of these studies have examined the UAE perspective. The findings of this study therefore provide evidence for shareholders and other stakeholders. Another important contribution of this study is that it is the first attempt to reveal the possible current barriers and enablers for the implementation of corporate governance in the UAE. It also evaluates the compliance of the listed companies with the corporate governance code in the UAE. In addition, it investigates the role of corporate governance practice in influencing firm performance in listed companies in developing countries, especially in the MENA region. This study is the first of its kind in the UAE and will hopefully provide useful information for future research.

This study contributes to the ongoing corporate governance debate regarding the use of the stakeholder theory to evaluate the current understanding of corporate governance practice, and it investigates the relationship between corporate governance principles and the performance of listed companies in the DFM and ADX in the UAE. These findings will result in better management and increased firm performance. This study fills the gap regarding the stakeholder theory argument, which recommends that a good relationship between the management and stakeholders can positively influence performance in listed companies.

This study attempts to develop a corporate governance model that is in line with the OECD Principles and that captures the distinct nature of these corporate governance principles. This model encompasses the rights and equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board. Moreover, the model can assist with the assessment of corporate governance practices in MENA countries. This contribution is significant for future corporate governance studies in MENA countries, particularly the UAE.

1.6 Significance of the Study

According to the World Bank's 'Doing Business' report, the UAE is one of the top five global economies in the world (World Bank, 2010). Obay (2009) has recently stated that personal and institutional investors are focusing on the UAE, and that the country has begun to attract international corporations. In addition, Al Mutawee (2006) has highlighted that 'if business in the UAE is to reach its full potential, corporate governance must be taken seriously' (p. 1). Clearly, the UAE must implement effective corporate governance because it has become one of the key elements in enhancing economic efficiency and growth and improving investor confidence (OECD, 2004).

The findings of this study will provide a significant contribution to understanding the issues and the current state of corporate governance practices in the UAE for many stakeholders, including:

- policymakers, regulators, academics and the wider community
- ES&CA, the Hawkamah Corporate Governance Institute, the IFC and the Abu Dhabi Centre for Corporate Governance (ADCCG)
- listed companies in the DFM and the ADX

- policy makers in other Middle East countries with similar economic environments.

In addition, this study develops a Corporate Governance Index (CGI) that is specifically tailored to the UAE context and MENA in general. The corporate governance framework is an essential monitoring tool, and the index is important for management decision-making. The index can be used as an indicator by future researchers to continue research into corporate governance and decision-making. Further, developing a CGI can be useful for management and stakeholders in helping them to assess the level of corporate governance practice in MENA countries and particularly the UAE.

This study can be generally useful for researchers who are investigating the implications of corporate governance principles and corporate governance mechanisms in improving firm performance, as this study is one of the few that have examined corporate governance practices in MENA countries such as the UAE. In general, this study provides a comprehensive representation of corporate governance to practitioners with a clear view of the relationship between corporate governance principles, corporate governance mechanisms and firm performance in the UAE. Therefore, this study may provide new and interesting primary evidence from a country that has a unique business environment and regulations and that is considered representative of the MENA region.

1.7 Structure of the Thesis

This thesis comprises 10 chapters. The present chapter introduces the topic and provides the background for the study. It includes an outline of the contribution to the current knowledge on corporate governance in the context of the UAE governance environment. The research aims and questions, conceptual framework, and research design and method are also introduced.

Chapter 2 addresses the background of the economic and political environment in the UAE, business-related bodies, monitoring bodies, development of capital markets, important regulations and laws, development of corporate governance, and the accounting and auditing profession. An understanding of these domains offers insight into the research context, research objectives, research questions and development of hypotheses.

Chapter 3 provides a review of the development of corporate governance, including definitions of corporate governance and the corporate governance system. In addition, the chapter discusses corporate governance in the UK, the US and Australia. The OECD Principles of Corporate Governance are also detailed, followed by an explanation of corporate governance mechanisms.

Chapter 4 provides a review of the literature on corporate governance practices. The chapter considers the benefits of the implementation of good corporate governance practices, as well as the role of the OECD Principles in improving MENA corporate governance. The chapter reviews the previous research on corporate governance practices in developing countries and emerging economies such as the UAE, and it also discusses empirical studies on the effect of corporate governance on firm performance by examining the positive, negative and neutral effects on the phenomena.

Chapter 5 presents the theoretical and conceptual frameworks of corporate governance and firm performance in the literature, as well as models for the study and the development of the hypotheses. It reviews the different theories that help explain the relationship between corporate governance practice and firm performance.

Chapter 6 explains the research methods used to achieve the aims of this study. Moreover, the chapter illustrates the data collection methods, questionnaire population, questionnaire design, pilot study, administration of the questionnaire and secondary data method. A discussion of the statistical techniques employed to analyse the data is also presented.

Chapter 7 presents the results of the questionnaire, including detailed results of the descriptive analyses regarding the demographical data and corporate governance. The descriptive analysis includes frequencies, percentage, rank, mean and standard deviations. In addition, differences between the responses of the selected groups are analysed by employing two non-parametric tests.

Chapter 8 consists of the results of the descriptive analyses and the testing of the hypotheses regarding the relationship between the corporate governance and firm performance of listed companies in the UAE. Descriptive statistics are used to present a CGI and compare the compliance of corporate governance mechanisms in listed companies in the UAE. In addition, the chapter presents the findings regarding the role of corporate governance principles and corporate governance mechanisms in improving firm performance using a correlation and econometric test.

Chapter 9 discusses the integrated results of all analysis techniques discussed in Chapters 7 and 8 using the hypotheses outlined in Chapter 5 and the questionnaire in Chapter 6. The discussion incorporates the theoretical and empirical evidence, as well as the literature reviewed in Chapters 2–4. A summary of the implications of the statistical analysis is also presented.

Chapter 10 provides a brief summary of the overall study. In particular, it provides an overview of the conclusions drawn regarding the relationship between corporate governance practice and firm performance. Finally, it discusses the findings, implications and limitations of the study, as well as suggested directions for future research.

Chapter 2: Corporate Governance in the UAE Context

2.1 Introduction

The previous chapter discussed the overall structure of this research, including the study problem, research objectives and questions, importance of the study, conceptual framework, methodology and thesis structure. This chapter aims to present an overview of the UAE in order to provide insight into the background of the UAE, including its political environment, economic development, monitoring bodies, and relevant laws and regulations. The focus of the research then moves to obtaining an understanding regarding the code of corporate governance practice introduced in 2007 and reformed in 2009, and the accounting and auditing profession in the UAE. One of the main objectives of this research has been to understand the nature and extent of the development of corporate governance practices in the context of the UAE business environment. An understanding of the fundamental underlying issues in the UAE will help the research to develop key determinants and measurements.

This chapter is divided into 10 sections. Section 2.2 presents a historical background of the UAE. Section 2.3 presents a political overview, while Section 2.4 outlines the development of the country's economy. Section 2.5 sheds light on business-related bodies in the UAE, while Section 2.6 reveals important monitoring bodies. The development of regulations in the UAE is outlined in Section 2.7, while the corporate governance structure of listed companies in the UAE is presented in Section 2.8. Section 2.9 offers a brief historical view of the accounting and auditing profession, and Section 2.10 provides a brief summary of the chapter.

2.2 Background of the UAE

The UAE was established in 1971 and comprises seven states: Abu Dhabi, Ajman, Dubai, Al Fujairah, Ras Al Khaima, Sharjah and Umm Al Quwain. It is located in the Middle East, bordering the Gulf of Oman and the Persian Gulf, between Oman and Saudi Arabia (World Factbook, 2011). The total population of the UAE was estimated to be around 8.26 million people in 2010, with a population growth rate of 0.9% more than 2009, as per the estimates of the National Center for Statistics (UAE Ministry of

Economics, 2012). A temporary draft constitution of the UAE was formed on 2 December 1971 by the Federal National Council (FNC) and the Federal Supreme Council (FSC) (FNC and FSC, 1971). This was drafted with the establishment of the federation and made permanent in 1996. The wealth of the UAE is shared between emirates, and each emirate supervises its own budget as part of the federal UAE structure. The UAE currency is Arab Emirates Dirham (AED).

The UAE has the fifth-largest oil and gas reserves in the world. The majority of oil is produced in Abu Dhabi, which has 95% of the country's oil and gas. Further, it is one of the largest sovereign wealth funds in the world, with more than US $300 billion in assets under management. The second-largest emirate is Dubai, which is highly leveraged by a gross debt-to-GDP ratio above 100%, with a varied economy that is driven by re-export trade, services and real estate. Expatriates comprise 80% of the population in the UAE. Unemployment is concentrated in the northern emirates, with 14% of the youth unemployed in 2009 (IMF, 2011).

2.3 Political Environment in the UAE

The UAE is a federation country that has delegated the specific power to the federal government as a federal system. The important government organs (Pierce et al., 2008) include:

- Supreme Council: This council establishes the rules of the seven emirates and is elected by the Council of Ministers.
- Council of Ministers: This council has established all key legislation for the UAE.
- FNC: This council has 40 members who are representatives from all emirates, and all proposed laws released by the Council of Ministers are evaluated by these members.
- FSC: The UAE has an independent judiciary. All emirates have joined the federal system except Dubai and Ras Al Khaimah. Secular and Islamic laws are implemented within civil, criminal and high courts by all emirates.

The UAE government established guiding principles for government work in Strategy 2011–2013. This attempts to ensure that all government work that is conducted is consistent with this guideline; it puts citizens first and promotes an accountable, lean, innovative and forward-looking government. In addition, this strategy is the basis for achieving the UAE Vision 2021.

The seven general principles that will direct government work are as follows (UAE Cabinet, 2013):

- develop the role of federal entities in devising effective regulations and integrated policies by successful planning and enforcement
- enhance effective coordination and cooperation among federal entities and with local governments
- focus on delivering high-quality, customer-centric and integrated government services
- invest in human resource capabilities and develop leaders
- promote efficient resource management within federal entities and leverage dynamic partnerships
- pursue a culture of excellence through strategic thinking, continuous performance improvement and superior results
- enhance transparency and accountability governance mechanisms throughout the federal entities.

2.4 Development of the Economy in the UAE

The UAE economy was formerly based on pearling and fishing throughout the seven emirates. This major economic activity provided employment and income to about 70% of the population before the discovery of oil in Abu Dhabi in 1958 and in Dubai in 1966. The other 30% of the population were involved in agriculture, rural handicraft and herding. There was very little industry except for the construction of wooden boats and simple handicrafts (Ghanem, 1992). Oil wealth has improved the economy of the country significantly and allowed it to move from a subsistence state to a modern, high-income country. However, economic growth and diversification are characterised by:

- significant government investment in physical and social infrastructure, which has helped to boost economic activity in general and, in particular, private investment
- a stable macroeconomic environment that is characterised by low inflation rates and a semi-fixed exchange rate and government policies

- the availability of capital and absence of restrictions on capital movement, together with a high degree of openness, which has opened the door for remarkable growth in foreign trade
- the availability of relatively cheap labour from neighbouring Arab countries and the Indian subcontinent (Elhiraika & Hamed, 2002).

Since the mid 1980s, the country has exerted strong efforts aimed at achieving economic diversification. These efforts have led to sustained investment in non-oil sectors, in particular in manufacturing and other sectors that are increasingly dominated by private capital. By the end of the 1990s, non-oil exports and non-oil GDP exceeded their respective oil counterparts for the first time since the oil evolution began in the country. Consequently, the UAE economy has recently been described as the most relatively varied economy in the gulf countries (Askari & Jaber, 1999). The UAE economy has had steady overall growth over the past decade based on its wealth in oil. The value of its GDP has more than doubled from US $105.6 billion in 2004 to US 4254.4billion in 2008. However, non-oil GDP has been a major driver, averaging 65% from 2004 to 2008. The non-oil sector includes: trade (16%), manufacturing (12%), real estate (8%), construction (7%) and the financial sector (7%) (KAMCO, 2011).

However, since 2009, the decline in oil prices, the post-Lehman shut down of international capital markets and the price correction in the property market in Dubai have placed a considerable strain on the economy (IMF, 2011). In addition, the UAE was unable to avoid the financial crisis in 2008 and 2009. The GDP then stood at US $248.9 billion, which was in line with the effects from the crisis felt in many countries around the world (KAMCO, 2011). The authorities therefore assisted the banking sector; the Emirate of Abu Dhabi provided financial support to Emirate Dubai. In 2010, the UAE economy began to recover more than other Gulf countries, benefiting from higher oil prices, and the GDP increased by 3.2% during the year. In 2011, the UAE also established its position as a major centre for trade, tourism and investment, which represented 23.5% of the GDP in 2011 (UAE Ministry of Economy (ME), 2012). This is due to large public investment spending in Abu Dhabi and strong tourism and trade in Dubai (IMF, 2011).

Table 2.1 UAE GDP at Constant Prices (2010–2011)

Description	2010	2011	Growth rate (%)
GDP (at constant prices) (billion AED)	942.4	981.7	4.2
GDP of the non-oil sectors (billion AED)	654.8	674.8	3.1
GDP of the oil sector (billion AED)	287.6	306.9	6.7
Share of non-oil sectors in GDP (%)	69.5	68.7	–
Share of oil sectors in GDP (%)	30.5	31.3	–

Source: UAE ME (2012)

Table 2.1 indicates that the GDP increased to roughly AED 981 billion in 2011, with a 4.2% growth rate compared to AED 942 billion in 2010 at a growth rate of 1.3%. At the same time, the real growth of the non-oil sectors was 3.1%. The growth rates show the success of the policy of diversifying the income sources and reducing reliance on oil in light of the economic financial crisis facing the global economy. Meanwhile, government revenues and resources had positively reflected on the level of public spending, encouraged investment and contributed to the development of other economic sectors. Alternative and renewable energy and peaceful nuclear energy for maintaining the state's non-renewable oil resources are important in the UAE in order to safeguard the rights of the coming generations therein and keep the environment free from pollution. The UAE has enjoyed a strong economy supported by an ideal investment climate with a high degree of flexibility and attractiveness, and effective economic and investment policies, based on a modern legal and institutional structure. This generates a positive effect on foreign investment flows to the UAE and supports its economic orientations (UAE ME, 2012).

As shown in Table 2.2, in the group of the commodity activities, the crude oil sector still has the most significant influence on the whole national economy, with a recorded contribution of 31.3% in 2011, up from 30.5% in 2010. In addition, the manufacturing sector is one of the state's key and essential objectives of future development, mainly in the small and medium industries. The contribution of the manufacturing sector in GDP in 2011 was 9.1% compared to 9.2% in 2010. The construction and building sector participated in construction and building in all sectors in the country (11.4% of the state GDP in 2011 compared to 11.5% in 2010). The contribution of the electricity, gas and water sector was 2.2% in both 2010 and 2011.

The sectors of the service activities also play a major role, including many sectors in which the state has a comparative advantage, such as travel and tourism, financial and insurance services, transportation, and telecommunications and information services. Service activities contributed 44.9% to the GDP in 2011 compared to 45.4% in 2010. As shown, the share of the service activity sectors in the GDP did not change the proportion of their contributions to the GDP in 2011 compared to 2010 (UAE ME, 2012).

Table 2.2 Contribution of the Economic Sectors to Real GDP (2010–2011)

Economic activities	**2010**		**2011**	
	Value (billion AED)	**%**	**Value (billion AED)**	**%**
Commodity activity				
Agriculture, livestock and fisheries	8.1	0.9	8.1	0.8
Crude oil and natural gas	287.6	30.5	306.8	31.3
Quarries	3.1	0.3	3.2	0.3
Manufacturing	86.7	9.2	89.3	9.1
Electricity, gas and water	20.4	2.2	21.5	2.2
Construction and building	108.8	11.5	112.2	11.4
Total commodity activity	**514.7**	**54.6**	**541.1**	**55.1**
Services activities				
Wholesale and retail trade and repair services	128.7	13.6	132.4	13.5
Restaurants and hotels	15.7	1.7	17.0	1.7
Transportation, storage and communications	84.7	9.0	88.2	9.0
Real estate and business services	99.1	10.5	99.8	10.2
Social and personal services	20.9	2.2	22.3	2.3
Financial enterprises	73.6	7.8	75.7	7.7
Government services	45.2	4.8	46.6	4.7
Domestic services	3.9	0.4	4.0	0.4
Imputed bank services	(44.1)	(4.6)	(45.4)	(4.6)
Total services activities	427.7	45.4	440.6	44.9
Total commodity and services activities	**942.4**	**100.0**	**981.7**	**100.0**

Source: National Centre for UAE Statistics (2012)

2.4.1 Investment in the UAE

Domestic investment is the foundation of economic development by which new projects can be established and other projects can be renewed, maintained and replaced in order to provide job opportunities for the labour market annually. The real economic mainstays provide the necessary products for meeting domestic demand and reducing importation, opening new markets of the state abroad and strengthening its presence in the current markets. The data in Table 2.3 indicate that there was incredible development in the volume of the domestic investment in the state in 2011, from AED 296.4 billion in 2010 compared to AED 340.2 billion in 2011, which was a growth rate of 14.8% (UAE ME, 2012).

Table 2.3 Gross Fixed Capital Formation by Sectors at Current Prices (2010–2011)

Description	2010		2011		Growth rate (%)
	Value in (billion AED)	Contribution (%)	Value in (billion AED)	Contribution (%)	
Gross capital formation	296.4	100	340.2	100	14.8
Government sector	27.9	9.4	29.0	8.6	3.9
Public sector	66.5	22.4	68.8	20.2	3.5
Private sector	202.0	68.2	242.4	71.3	20.05

Source: UAE ME (2012)

The structure of the investment distribution reveals that the contribution of the private sector's investment to domestic investment increased from 68.2% in 2010 to 71.3% in 2011 in light of declining investment contributions by the government and public sectors to the total domestic investment. This reflects the success of the policies of supporting the public sector for increasing its contribution to the development, providing an opportunity for the initiatives of the private sector and encouraging investors and businessmen in order to align with economic developments and satisfy the country's need for production that would cover part of the domestic demand and reduce commodity imports.

In 2011, the UAE government gave more attention to foreign investment in consideration of its significance in supporting development, creating job opportunities and providing modern technology and sophisticated management techniques. A foreign investment law was drafted to provide the legal framework and required protection for the foreign investments to regulate their flow, provide the organised atmosphere and environment for running them, and to encourage and stimulate more foreign investment. The ME has indicated that foreign investment flows experienced a slowdown in the past few years. In 2009, foreign investment was around AED 14.7 billion; however, it began rising gradually to around AED 28.2 billion in 2011, producing a total development of approximately AED 313.4 billion at the end of 2011 (UAE ME, 2012).

2.4.2 Financial sector in the UAE

The financial sector is one of the most important sectors to the development of global and local economic conditions. Its monetary policies reflect the pace of economic activity in all other economic sectors. The UAE financial enterprises sector was able to absorb the repercussions of many crises because of the financial and monetary policies followed by the government and monetary authorities. With these policies, the banking body was able to provide the requirements of the other economic sectors and realise a positive growth rate in 2011 of 7.7% at current prices. The output of the sector rose to AED 85.5 billion compared to AED 79.4 billion in 2010. The contribution of the sector to the GDP was 6.9% compared to 7.6% in 2010. The contribution of the sector to the non-oil sectors rose slightly to 11.2% from 11% in 2010. Government spending increased, which would enhance the liquidity situation for the banking body and subsequently enhance activity in the other sectors (UAE ME, 2012).

2.4.2.1 Monetary developments

Supplied money increased from AED 232.9 billion in 2010 to AED 264.1 billion in 2011 (13.4%). At the end of 2011, supplied money, including cash equivalents, increased from AED 786.4 billion in 2010 to AED 825.8 billion (5%). Money supply, which represents total local liquidity and includes government deposits, increased by 1.6% to AED 1001.4 billion at the end of 2011 from AED 985.2 billion in 2010. Government deposits declined from AED 198.8 billion in 2010 to AED 175.6 billion in 2011 (11.7%), which led to a decline in the liquidity ratio to GDP from 94.5% in 2010 to 80.5% in 2011 (see Table 2.4) (UAE Central Bank, 2011).

Table 2.4 Monetary Developments (2010–2011)

Description	2010 (billion AED)	2011 (billion AED)	Growth rate (%)
Money supply	232.9	264.1	13.4
Broad money supply	786.4	825.8	5.0
Broader money supply	985.2	1,001.4	1.6

Source: UAE Central Bank (2011)

2.4.2.2 Banking developments

In Table 2.5, the total assets of commercial banks in the UAE increased to AED 1665.2 billion by the end of 2011 from AED 1609.3 billion in 2010 (3.5%). Public deposits with commercial banks rose to around AED 1070 billion in 2011 from AED 1050 billion in 2010 (1.9%). At the end of 2011, banking loans increased by 2.1% to AED 992.9 billion from AED 972.1 billion in 2010. The loan-to-deposit ratio increased slightly to 92.8% from 92.6% in 2010. This reflects the limited improvement in liquidity growth among banks, as well as the continued caution exercised by banks in their lending policies (UAE Central Bank, 2011).

Table 2.5 Banking Developments (2010–2011)

Description	2010 (billion AED)	2011 (billion AED)	Growth rate (%)
Total assets	1,609.3	1,665.2	3.5
Total deposits	1,049.6	1,069.8	1.9
Loans	972.1	992.9	2.1
Loan/deposit ratio	92.6	92.8	–

Source: UAE Central Bank (2011)

Overall, the economic and political development in the UAE represents an appropriate environment for such study; also, the security and stability enjoyed by the UAE have made it one of the few Arab countries not exposed to the revolutions of what is known as the Arab Spring of 2011. The ability of the UAE economy to recover rapidly from the global financial crisis in 2008 was because of its reforms policy such as the corporate governance code, which will help in monitoring management and discovering whether there is manipulation in financial reports and then increasing the quality of these reports. The UAE's economic development plans have attracted local and foreign investors. Thus, there is a need to improve corporate governance practice, in particular, the international standards of corporate governance, to adapt to the special circumstances of the country. Therefore, this research will highlight the compatibility of the UAE regulations and laws with international governance standards and the reality of listed companies applying UAE Corporate Governance Code.

2.5 Business-related Bodies in the UAE

2.5.1 Dubai International Financial Centre

The Dubai International Financial Centre (DIFC) was established in 2004. It is a financial centre that provides a supportive and secure platform for financial institutions to increase their businesses. The DIFC has all of the elements found in the world's most successful financial industry ecosystems: an independent regulator, an independent judicial system with a common-law framework, an international financial exchange, inspiring architecture, powerful and enabling infrastructure, support services and a vibrant business community. The DIFC has three core institutions, each of which operates independently: the DIFC Authority, the Dubai Financial Services Authority and the DIFC Courts (DIFC, 2012). The DIFC is a financial free zone that has its own legal jurisdiction based on international best practice. The advantages of this DIFC are: a company with 100% foreign ownership is allowed to join the centre and pay no tax on income and profits, and there is no limitation on foreign exchange and repatriation of capital or profits (Pierce, 2008).

2.5.2 Federation of UAE Chambers of Commerce and Industry

The Federation of UAE Chambers of Commerce and Industry (FCCI) was established in compliance with Federal Law No. (5) of 1976 and confirmed by Law No. (22) of 2000, issued by the UAE President. The Federation aims to provide the comprehensive framework that would include businessmen through the Chambers of Commerce and Industry for each emirate in the UAE. The first Board of Directors for the Federation was formed in 1977 at a meeting held at the ME in Abu Dhabi. The Board held Extraordinary Meetings with Ministries, Gulf, Arab and foreign bodies in order to discuss draft laws, legislation, protocols and economic agreements, and matters related to the Federation and its relations. The FCCI offered support to the private sector through a group of programs, including research studies, service and guidance in addition to facilitating the works of firms and companies on all economic, commercial and industrial activities (FCCI, 2013).

2.5.3 Hawkamah Institute for Corporate Governance

Hawkamah, the Institute for Corporate Governance, was launched in 2006 to assist countries and companies of the wider MENA region, in particular the UAE, in enhancing sound and internationally well-integrated corporate governance frameworks, policy and practices. The institute supports regional and international initiatives to develop open and transparent markets and good corporate governance regimes. It aims to promote corporate sector reform and good governance, and to assist the countries of the region in developing and implementing sustainable corporate governance strategies adapted to national requirements and objectives. The OECD and Hawkamah worked with the World Bank and invited ministries, financial institutions, the judiciary, representatives of OECD countries and other regional and international bodies to meet and discuss these issues during the first half of 2007 (Singh & Singh, 2010).

In 2008, the Hawkamah Institute established Mudara—Institute of Directors (IOD) as a separate institute (Pierce, 2008). Mudara–IOD is a membership organisation that serves board members, directors and governance professionals in the MENA region. Mudara–IOD aims to establish an internationally recognised institute that is committed to best practices for directors to: assist members and their boards in achieving the highest standards of directorship and corporate governance; advance the interests of directors in the region; increase understanding of the role of company directors; provide a forum for members to exchange ideas on common issues; and support free enterprise and wealth creation, which will lead to greater employment opportunities and higher living standards (Mudara–IOD, 2013).

2.5.4 Abu Dhabi Centre for Corporate Governance (ADCCG)

The Abu Dhabi Centre for Corporate Governance (ADCCG) was established as an initiative by the Abu Dhabi Chamber of Commerce and Industry (ADCCI). The centre aims to effectively promote, and positively contribute to improving, the national economy. The ADCCG encourages and assists the private and public sectors to adopt the highest standards and practices of corporate governance, including: providing specialised consultancy services in the field of corporate governance; providing specialised advisory services in principles of corporate governance by assessing the current practices of entities in the private and public sectors; providing services of internal control systems; disseminating its research and studies through several means, including publications and presentations at conferences and seminars; providing professional development training in corporate governance and related areas; and organising conferences and networking meetings to discuss various corporate governance issues in the region (ADCCG, 2013).

2.5.5 Emirates Organization for Certified Public Accountants

The Emirates Certified Public Accountant (ECPA) is a public accountant certification that is licensed by the UAE. In the UAE, this prestigious designation calls for individuals to demonstrate their knowledge and competence by passing the ECPA exam online, meeting high educational standards and completing a specified amount of general accounting experience. The American Council for Accredited Certification (ACAC) is the national professional organisation of ECPAs; it determines and prepares the content and scoring of the uniform ECPA examination. The exam is being offered internationally as a service to foreign nationals in response to the rapidly escalating international demand for ECPAs (Development Institute, 2013).

In the UAE, the Emirates Institute of Certified Public Accountants (EICPA) accepts only training centres with a high-standard learning environment that focuses on participants who are able to contribute to the economic, social and cultural life in local and international communities. The Arab Institute for Accountants and Legal (AIAL) is a leading educational institution in the UAE for accounting and legal courses. It has become a training ground for various professions and individuals from both public and private organisations (Development Institute, 2013).

2.6 Monitoring Bodies in the UAE

There are four main bodies in charge of regulating, supervising and monitoring listed companies in the UAE: UAE Ministry of Economy, Central Bank of the UAE, ESCA and Emirates Securities Market, which are all briefly described below.

2.6.1 UAE Ministry of Economy

The ME was established by Federal Law No. 1 in 1972 and is considered the main monitoring body of companies in the UAE (Federal Law No. 1, 1972). The main objectives of the Ministry are to: develop economic policies and legislation in accordance with best international standards for a competitive knowledge economy; develop and diversify national industries; organise and develop the sector of small and medium enterprises and the National Entrepreneurship; increase the attractiveness of the state for investments; enable sound business practices, consumer protection and intellectual property rights; enhance the competitiveness of the state in foreign trade markets and develop its relations with countries to serve its commercial interests; and ensure that all administrative services are in accordance with the standards of quality, efficiency and transparency (UAE ME, 2012).

2.6.2 Central Bank of the UAE

The Currency Board in the UAE was established in 1973 by Union Law No. (2) of 1973. The Currency Board was mandated to issue the national currency that replaced the Bahraini Dinar and the Qatari and Dubai Riyal currencies in use at the time. The Currency Board’s functions are to issue the UAE Dirham and ensure its full coverage in gold and foreign currencies. In 1980, the Central Bank was launched by Union Law No. (10) of 1980. The Monetary System and the Organization of Banking were issued, thereby creating the Central Bank of the UAE, which was given authority over the organisation of the monetary and banking systems in the UAE. This includes the organisation of monetary, credit and banking policy in the UAE and the supervision of its implementation (Union Law No. 10, 1980).

The Central Bank of the UAE is the regulatory authority for banks, finance companies, investment companies, exchange houses, financial and monetary intermediaries, and offices of banks and financial institutions. The responsibilities of the Central Bank include: issuing currency; maintaining stability of the currency and its free convertibility into foreign currencies; creating credit policy to achieve balanced growth of the national economy; organising and developing banking, and monitoring of the efficiency of the banking system; functioning as the bank of the government; offering monetary and financial advice to the government; maintaining government reserves in gold and other currencies; and acting as the financial agent of the government at the International Monetary Fund, the World Bank and other international and regional financial institutions (Union Law No. 10, 1980).

2.6.3 Emirates Securities and Commodities Authority

In 2000, the UAE President issued a federal decree to set up a public authority known as the Emirates Securities and Commodities Authority (ES&CA). Federal Law No. 4 (2000) determines the administration system of the Authority of Securities and Commodities, and it describes the goal, power, authorities and structure of the board of directors. The Authority is a legal entity with financial and administrative independence and the control and executive powers necessary for it to discharge its tasks in line with the provisions of this law and the regulations issued in implementation thereof, noting that the Authority reports to the Minister (Federal Law No. 4, 2000). The Authority may set up subsidiary branches or offices to discharge the tasks of supervising and monitoring the markets, but it may not practice trade activities, seek benefit in any project nor own or issue any securities. It should ensure the prompt liquidation of the money invested, develop a supervisory system of work at the ES&CA in accordance with the best international practices, develop legislation that regulates business activities in the UAE capital market, and pursue excellence and creativity in providing services to all parties in the capital markets as well as develop and provide central administrative services with the highest degree of transparency and efficiency (ES&CA, 2010).

The ES&CA is the most important regulatory body of the two UAE markets and has established rules and laws related to corporate governance, such as:

- decision No. (3/ r) of 2000 concerning regulations regarding disclosure and transparency
- regulation of the corporate governance of companies and the implementation of these rules from 2007
- the Minister of Economy and Board Chairman of the ES&CA has issued Decree No. 518 of 2009 concerning the criteria of governance and standards for institutional discipline, the decision to reform the Code of Corporate Governance 2007
- proposing and making regulations in accordance with the law
- supervising and monitoring the operations of ES&CA licensed securities markets in the country
- issuing licenses to securities and commodities markets, brokers and other companies operating in the area of securities in the country
- providing licenses for listing securities and commodities for trading on the markets
- stipulating in collaboration with the securities markets, dues for implementation of rules and regulations, which demand fee payment
- regulating and supervising the disclosure of information related to securities
- establishing specialised technical committees and earmarking their areas of jurisdiction and entitlements.

2.6.4 Emirates Securities Market

The Emirates Stock Market (ESM) is a new and small market that was established in 2000. The ES&CA supervises this market, which comprises two government stock markets: the ADX and the DFM (Marashdeh & Shretha, 2008). The ADX was established on 15 November 2000 by Local Law No. (3) of 2000, the provisions of which vest the Market with a legal entity of autonomous status, independent finance and management, and give the ADX the necessary supervisory and executive powers to exercise its functions (Local Law No. 3, 2000). The DFM was established as a public institution with its own independent corporate body by ME Resolution No. 14 of 2000. The DFM operates to trade securities issued by Public Joint-Stock Companies (PJSC), bonds issued by the federal government or any of the local governments and public institutions in the country, units of investment funds and any other financial instruments, local or foreign, that are accepted by the Market (ME Resolution No. 14, 2000).

The ES&CA formed the previous two markets in 2000; they are linked to the Emirates Securities Market electronically. The ESM has its own index, called the Emirates Securities Market Index; it includes trading on stocks for all listed companies in both the ADX and DFM markets. In 2001, there were 27 listed companies in the markets. This number has increased significantly over the past decade; by 2010, there were 129 companies listed in both markets. Table 2.6 reveals the advancement of the ESM index, market value (capitalisation), trading volume, trading value, number of trades and number of listed companies from 2001 to 2010 (ES&CA, 2010).

The Emirates stock price index increased sharply from 1,116.68 in 2001 to 2,655.32 in 2010. The volume of market capitalisation recorded a seven-fold increase from 2001 to 2010, and the traded value increased considerably from AED 1.515 billion in 2001 to AED 103.805 billion in 2010, while the number of listed companies grew from 27 to 129. In 2010, the Emirates Securities Market witnessed several improvements in its main indicators that had occurred over the past 10 years. This is a good example of newly emerging stock markets with major growth potential (ES&CA, 2010).

Table 2.6 Performance of ESM

Year	ESM Index	Market value (billion AED)	Traded volume (billion Share)	Traded value (billion AED)	No. of trades	No. of listed companies
2001	1,116,68	50,131	0.077	1.515	19,334	27
2002	1,253,36	109.784	0.209	3.861	36,341	37
2003	1,657.24	145.632	0.561	7,458	50,712	44
2004	3,251.57	305.803	6.069	66.786	299,280	53
2005	6,839.97	839.683	33.812	509.868	2,300,452	89
2006	4,031.01	514.697	50.940	418.149	3,138,749	106
2007	6,016.21	824.629	157.318	554.333	3,354,617	120
2008	2,552.23	363.872	126.439	554.134	3,257,450	130
2009	2,771.56	404.703	148.297	243.490	2,728,964	133
2010	2,655.32	385.430	56.003	103.805	1,158,505	129

Source: ES&CA (2010)

In Table 2.7, the UAE Securities Markets' general share price index increased by 9.4% in 2012, whereas market capitalisation increased from AED 346.1 billion at the end of 2011 to AED 379.1 billion at the end of 2012. At the end of December 2012, the price–

earnings (P/E) ratio (share price divided by share profit earned by an investor) reached an average of 8.94 times the ADX and 10.92 times the DFM.

Table 2.7 UAE Securities Markets Indicators

Description	2011	2012
General share price index	2,341.4	2,561.2
Market capitalisation (billion AED)	346.1	379.1
P/E ratios—ADX	9.79	8.94
P/E ratios—DFM	14.75	10.92
Number of listed companies	128	123

Source: ES&CA (2012)

In 2012, trading activity by sectors of the economy included: banks, insurance, real estate, energy, telecommunications, transportation, investment and financial services, industry, and consumer staples and services, which are represented in Table 2.8. The largest sector was the real estate sector in terms of trade value in 2012, with 45.18% of the total value of traded shares. The second largest was the banking sector (20.33%) followed by the telecom sector (9.43%), investment and financial services sector (7.48%), services sector (6.04%), transport sector (3.99%), insurance sector (3.96%), energy sector (2.03%), industry sector (1.39%) and consumer staples sector (0.18%).

Table 2.8 Trading Activity by Sectors

Sectors	Trades	Volume (billion share)	Value (billionAED)	%
Banks	173,058	10.262	14.374	20.33%
Insurance	54,846	2.965	2.799	3.96%
Real Estate	340,308	23.138	31.944	45.18%
Energy	23,878	3.036	1.435	2.03%
Telecommunications	89,080	2.109	6.666	9.43%
Transportation	54,544	5.393	2.821	3.99%
Investment and Fin. Services	82,120	5.612	5.288	7.48%
Industry	14,070	1.084	0.982	1.39%
Consumer Staples	1,808	.057	0.127	0.18%
Services	46,375	3.201	4.270	6.04%
ESM Index	**880,087**	**56.857**	**70.706**	**100%**

Source: ES&CA (2012)

This section has shed light on the main four monitoring devices, bodies in the UAE, that play a significant role in regulating and developing the UAE business environment, whose development stems from a need for emerging economies, such as the UAE. These reforms and regulations are helpful for and useful in the UAE market; furthermore, monitoring devices bodies may effectively play a key role if they are given more independence and authority.

2.7 Important Regulations and Laws in the UAE

This section highlights the major regulations that cover the business of companies and are related to corporate governance, such as the UAE Commercial Companies Law No. 8 (1984), the ES&CA Disclosure and Transparency Regulation No. 3 (2000), the UAE Code of Corporate Governance (Emirates Security and Commodity Authority (ES&CA) decision R/32 of 2007) and the ME published Ministerial Resolution No. 518 of 2009 Concerning Governance Rules and Corporate Discipline Standards.

2.7.1 UAE Commercial Companies Law No. 8 (1984)

This law provides the basis for companies' practices in the UAE. It includes articles about Act 8 and has formed rules related to the board of directors' selection, composition, duties and management processes. Article 95 emphasises that board size must be at least three members but no more than 15 members for a three-year term only, although any member can be elected for more than one period. Article 96 requires that the board of directors be elected at a general meeting of a company by secret ballot. Article 98 calls for a director to be allowed to be a director of only five companies, and no person can hold the chairman or vice chairman position for more than two companies. Article 99 requires that a board elect a chairman and vice chairman, and that the chairman be a UAE national. Article 100 highlights that the majority of directors in a UAE company must be of Emirates nationality. Article 105 directs that a board meeting be held by the majority of members. In Article 111, the board of the company is accountable to shareholders for an act of fraud, abuse of power, violation of law and/or the corporation bylaws and wrongful management. According to Article 118, the company system determines the remuneration of the board to be no more than 10% of net profits after distributing profit worth at least 5% of the capital of the company to shareholders (Federal Law No. 8, 1984).

In Articles 190–198, the *Corporation Act 1984* requires a company board to prepare financial records, including an income statement, balance sheet and cash flow statement. In addition, at the end of the year, it should provide a report about company activity that is signed by the chairman of the corporation as an integral part of the board director's report to the shareholder at the annual general meeting. Commercial Law 1984 calls for all companies to have an external auditor who is nominated at the general meeting of the company, and it also determines that the remuneration of the auditor for one year may be renewed for the same external auditor (Article 144). Moreover, the external auditor should audit company accounts and examine the balance sheet and financial income, noting the application of law and system of the company, and provide a report at the annual general meeting (Article 146). The external auditor must confirm the financial reports and highlight any irregularities to shareholders (Article 150).

2.7.2 ESCA Disclosure and Transparency Regulation

The regulation of ES&CA outlines the rules of disclosure concerning disclosure of ES&CA (Articles 8–16), disclosure of stock market (Articles 17–27) and disclosure of corporations (Articles 28–39) to improve transparency and enhance the accountability system. ES&CA decision No. 3 (2000) requires that the Authority ensures that disclosure and transparency are regulated in accordance with the law, regulations and resolutions in the UAE (Article 8). The board may carry out an examination of market members regularly or upon request by a concerned party in order to determine the level of compliance with the law, and the rules and regulations in application (Article 9). Article 10 highlights that the Authority will not conduct commercial activities or have an interest in any particular project or own or issue any securities (ES&CA, 2000).

The regulation of ES&CA requires that the market monitors listed companies' responsibilities to disclose important matters and information and financial statements, and the timing of such publications, and ensures that the disclosures of companies are clear and reveal the facts that they express (Article 17). In addition, the market board director should issue the press notices necessary to ensure transparency of information and disclosure (Article 18). The members of the board in the market are not nominated in these positions if they are members of the board of that company or a financial or broker representative of a financial broker (Article 22). The market should provide the board with the balance sheet, the profit and loss account, and the annual financial statements audited by an accredited auditor within 90 days from the end of its financial year (Article 25) (ES&CA, 2000).

ES&CA requires corporations to fully disclose, with a proper level of transparency, assured corporate governance-related information. For instance, decision No. 3 of 2000, Article 29, 36, requests listed corporations to provide information about:

- the assessment of the board director supported by the figures of the corporation performance and accomplishments as compared with the plan made
- the names of the members of the board of directors and the executive managers, with a statement of the shares owned by each of them and their relatives to the first degree, and the membership of any of them on the boards of directors of other public joint-stock companies
- the names of those who own, or whose holdings, coupled with those of their minor children, amount to, 5% or more of the shares of the company
- the percentage of the holdings of persons who are not nationals in the company's capital
- the amendments introduced into the company's articles of association as soon as these amendments are approved
- any change relating to the company's management structure at the level of the board of directors and the executive management (ES&CA, 2000).

2.7.3 Corporate Governance Code for small and medium enterprises

Dubai small and medium enterprises (SMEs) commissioned Hawkamah to draft a Corporate Governance Code for Dubai SMEs in 2011. The Code is based on international best practices, which are adapted to the Dubai market. The aim of the Code and the Handbook are to provide basic guidance for SMEs to assist these companies to achieve structures that will facilitate and enhance growth, profitability and sustainability. The key elements are rooted in international best practices and adapted to the Dubai economy. The Code provides guidance on the areas in which companies should develop their corporate governance practice. It outlines the general elements of good corporate governance and sets out a number of steps that companies should consider when constituting their corporate governance framework, while taking into account that the implementation of good corporate governance is a gradual process (Dubai SME, 2011).

The understanding and implementation of a good corporate governance framework presents SMEs with a structured path to infusing better management practices, effective oversight and control mechanisms, which lead to opportunities for growth, financing, exit strategies and improved performance. The aspects of this Code are based on international best practices, which are adapted to the Dubai market. Companies will be responsible for implementing these pillars in a manner that is practicable for them, taking into account their own individual circumstances and needs. The Code sets out six sections of corporate governance for Dubai SMEs: corporate governance policies and procedures; transparency and shareholder relations; board of directors; control environment (internal controls, audit and risk management); stakeholder relations; and family governance (Dubai SME, 2011).

2.7.4 Development of corporate governance in the UAE

Corporate governance has received substantial support from the UAE government since the global crisis in mid 2008 and the Dubai crisis that followed. Corporate governance is becoming an essential subject in the UAE business environment, and the debate on the development of the corporate governance system is of significant interest. In 2007, ES&CMA introduced the UAE Code of Corporate Governance (ES&CA decision R/32 of 2007 amended by Ministerial Resolution No. 518 of 2009). The ME published Ministerial Resolution (MR) No. 518 of 2009, which aims to enhance corporate governance rules and discipline standards for UAE PJSC. These companies should be listed on one of the UAE’s two stock exchanges: the ADX or the DFM (Ahmad, 2010).

The ES&CA established this code based on common international norms and practice. In particular, the OECD Principles of Corporate Governance and listed companies have been given a three-year period to comply with this rule, which will be mandatory by May 2010 (Pierce, 2008). Resolution No. 518 of 2009 consists of the 15 articles, the main ones being: Article 3. Board of Directors; Article 4. Chairman of the Board of Directors; Article 5. Members of the Board of Directors; Article 6. Board of Directors Committees; Article 7. Remuneration of Directors; Article 8. Internal Control; Article 9. Audit Committee; Article 10. The External Auditor; Article 11. Management Authorization; Article 12. Shareholder Right; Article 13. Professional Conduct Rules; Article 14. Governance Report; Article 15. Penalties; and Article 16. Implementation (ES&CA, 2009).

The elements of the corporate governance code should be comprehensively consistent with the UAE *Corporation Act 1984* and ES&CA decision No. 3 of 2000 regarding Transparency and Disclosure. The Code requires listed companies to arrange a governance report as an integral part of their annual reports (Hassan, 2011). In addition, the UAE government’s efforts to regulate UAE capital markets in line with corporate governance standards of leading international financial centres are supported by MR 518. A central theme of the new rules is the emphasis on the management oversight function of the board of directors (ES&CA, 2009).

The UAE business environment has recently experienced development that has contributed to reinforcing the UAE's economy, such as the enhancement of regulations, including those for the UAE market, commercial 'companies' law, disclosure and transparency, and corporate governance. The rules governing each mechanism of the UAE Corporate Governance Code covered in the next section present a clear vision of corporate governance mechanisms.

2.8 Corporate Governance Structure of Listed Companies in the UAE

This research provides an overview of the governance structure of listed companies in the UAE based on the rules of corporate governance. Thus, this section analyses the main articles in MR No. 2009 concerning the structure of corporate governance. These include: Board Size; Composition of Board; Board Meeting; Leadership (Chairman and CEO); Board Committee (Nomination and Remuneration, Committee Audit committee and other committees); external auditor; internal control; and report of corporate governance, as follows.

Board size: Article No. 3(1) mentions that a company managed by a board of directors and the system of a company should determine the process of establishing the board and the number of members on the board. The new board should be elected by shareholders at a general meeting of the company.

Board composition: Article No. 3(2) calls for a company to consider the balance in the formation of a board between executive and non-executive members. Further, at least one-third of board members should be independent, and the majority should be non-executive members. In addition, the board members should have sufficient qualifications, skills and experience to conduct their duties.

Board meeting: Article No. 3(6) indicates that a board of directors should set up at least one meeting every two months. All members should receive invitations at least one week from the date of the meeting based on the request of the chairman of the board or two members in this meeting. Moreover, the majority of members must attend the meeting.

Leadership (Chairman and CEO): Article No. 3 illustrates the system of a board in companies. Article No. 3(3) requires that the chairman of the board, director and senior manager must be different people. Article No. 6(2) indicates that the chairman must not be nominated to any committees of the board.

Board committees: Article No. 6(1) requires that the board launch standing committees, such as an audit committee and a nomination and remuneration committee, to be directly associated with the company board.

Nomination and Remuneration Committee: Article No. 6(2) describes the composition of the Nomination and Remuneration Committee; it must comprise not less than three non-executive members. Further, it should include at least two independent members and one chair of the committee. The board of the company is responsible for selecting the members of this committee.

Audit Committee: Article No. 9 clarifies the duties of the Audit Committee. Article No. 9(1) mentions that this committee must comprise at least three non-executive members, and the majority of the members must be independent. In addition, one committee member should be an expert in accounting and financial affairs, or the company may appoint one member or more if there are an insufficient number of non-executive members in the company. In addition, Article No. 9(3) requires that the Audit Committee set up at least one meeting every three months.

Remuneration of directors: Article No. 7 describes the system that determines the remuneration of a board with consideration of the Commercial Companies Law No. (8) of 1984. The company can give board remunerations as a percentage of company profits, but it must not exceed 10% of the net profit after deduction of expenses, depreciation and reserves, and after the distribution of dividends to shareholders of no less than 5% of the company's capital.

External auditor: Article No. 10 sets down that the company should nominate an external auditor based on recommendation from the audit committee, and shareholders should decide on the appointment and remuneration of the external auditor at the general meeting. Article No. 10(2) calls for the external auditor who is nominated by the company board to be efficient and have a good reputation and experience. Article No. 10(3) emphasises that the external auditor must be independent from the company and board.

Internal control: Article No. 8(1) requires that the internal control system assess risk management, sound application of governance rules and comply with appropriate laws, regulations, resolutions, and internal procedures and policies. Article No. 10(2) indicates that the company board should establish an internal control system department based on consultation with management, and that the implementation of the internal control system is supervised under this department. In addition, Article No. 10(3) mentions that the board should launch the objectives, duties and power of the internal control department, and that this department is directly controlled by the company board.

Shareholders' rights: Article No. 12 indicates that shareholders should have rights such as receiving their share of dividends allocated for distribution and of assets on liquidation, attending general assembly meetings, taking part in deliberations, voting in general assembly resolutions, disposing of shares and having access to the company's financial statements and reports. A company's articles of association and internal regulations will include the necessary procedures and rules to ensure that all shareholders exercise their regulatory rights. The board of directors should disclose material events and significant resolutions, clarify information with regard to the positions and activities of the company, and develop a clear policy on dividend distribution for the best interests of shareholders and the company. Shareholders should be made aware of this policy in the general assembly meeting. A company should open nomination to membership of the board of directors by announcement in two daily newspapers, of which at least one newspaper should be issued in Arabic. Shareholders that meet nomination criteria pursuant to the law and the company's articles of association may stand for election to the membership of the board of directors.

Report of corporate governance: Article No. 14 calls for the report of governance to be signed by the chairman of the board of directors. This report should include all details and information about the corporate governance report regarding the requirements of application that are formed by the authority. Companies and institutions require this report to be submitted every year to the ES&CA. In particular, the report must cover details relating to requirements and principles of completion of the corporate governance system and their application approach; any violations committed during the financial year, reflecting their causes as well as methods to remedy and avoid any future occurrence; the formation method of the board of directors in terms of member classes, term of membership and means of remuneration fixation, as well as remuneration of the general manager, executive director or chief executive officer of the company; and the company should make the requirements available to all of the company's shareholders before its annual general meeting.

Administrative penalties: Article No.15 indicates that the ES&CA may impose any of the following penalties on listed companies that do not comply with the corporate governance code: sending a warning notice to the company to remove the causes of a violation; suspending the company's securities listing; delisting; or imposing a financial penalty that may not exceed the maximum legal limit.

The advantages of implementing corporate governance in the UAE include: better management, leading to better company performance and results; protecting the interests of stakeholders (e.g., shareholders, employees and creditors); a transparent and organised mechanism to deal with conflicts of interest; boosting shareholder/investor confidence and potentially reducing investment risk; and fulfilling professional and social responsibilities. The purpose of implementing a corporate governance system is to align companies in the UAE with international standards, while the aim of this implementation is to protect shareholders' rights and promote their participation as stakeholders (Singh, 2010).

Overall, examination of the Corporate Governance Code indicates that the code is comprehensive and addresses a wide range of corporate practices. There are some general provisions that all companies are supposed to comply with in addition to complying with other national regulations. The ADX and DFM markets play a major role in the economy of UAE; therefore, the code has developed additional provisions for these markets. The listed companies are expected to comply with those code provisions and other national/regulatory requirements.

The assessment of the Code of Corporate Governance is the outcome of the evaluation of corporate governance practice, namely, its principles and mechanisms, and tests the intensity of their adoption in the UAE listed companies. Therefore, this study intends to describe the situation and develop real practices of corporate governance in the UAE.

2.9 Accounting and Auditing Profession in the UAE

The first direct law concerning accounting and auditing in the UAE was Federal Law No. 9 of 1975, entitled ‘organizing accountancy and auditing’. On 18 December 1995, Federal Law No. 22 was passed, dealing with the organisation of the auditing profession, which comprises eight chapters and 53 articles, starting with: (1) definition chapter; (2) schedule of auditors and conditions for entry therein; (3) procedures for entry in the schedule of auditors; (4) audit higher commission; (5) rights and duties of auditors; (6) accountability and discipline of auditors; (7) penalties; and (8) general and final provisions. In 1997, the Accountants and Auditors Association (AAA) was established by MR 227 to play a significant role in developing international best accounting practices in the UAE. The AAA of the UAE is the official body that represents the accounting profession in the country, and it has a significant effect on the accounting profession (MR 227, 1997).

The Association was established to cope with the overall economic development in the UAE, particularly in the field of commerce and industry, which is manifested in the issuance of all economic legislations such as Business Law, Central Bank and Commercial Banks Act, Insurance Companies Law and Law Business Transactions. In addition, many medium-income UAE nationals are becoming aware of how to invest their savings, and PJSC are being established, which offer their shares for public subscription. Finally, Federal Law No. 22 of 1995 regarding the Organization of the Auditing Profession was introduced.

The AAA in the UAE gives substantial attention to, and makes more effort towards, developing the accounting profession, which is of significance in supporting the investment and economic climate in the UAE. The reasons for this are the development in the accounting and auditing profession, and the introduction of obligatory standards for the practitioners of all business entities and professional associations. There has been development of implementing international standards to keep up with the developed world, as there was no independent body or association to cater for the affairs of the profession (MR 227, 1997).

According to Articles 6 and 8 in Chapter 2 of Federal Law No. 22 of 1995 regarding the schedule of auditors and conditions for entry, individuals (usually UAE nationals) should train for a period ranging between one and three years. This training is undertaken in either a practicing accountancy firm, or in audit or inspection of accounts in one of the ministries, institutions or public corporations. Teaching accountancy or auditing in one of the public colleges or educational institutes is also considered acceptable. The period of training depends on whether they hold a university degree (three years), a PhD in accounting (two years) or a fellowship degree from one of the certified institutions or societies (one year) (Federal Law No. 22, 1995).

2.10 Conclusion

This chapter aimed to provide a brief overview of the background of the UAE's economic and political environment, important regulations, monitoring devices, and accounting and auditing profession related to research and the important events in the UAE environment as they affect firm performance in the UAE. The development of capital markets has contributed to influencing regulatory reforms in corporate law and encouraging effective corporate governance practices that attract external investment. The history of corporate governance regulations in the UAE, leading to current improvements in corporate governance, including the main laws governing the legal framework, which affect the implementation of corporate governance in the UAE, was discussed. Finally, the corporate governance structure of listed companies in the UAE based on the code of corporate governance 2009 was discussed.

This chapter also indicates that development of the corporate governance process in the UAE is greatly influenced by its political and socioeconomic environment, suggesting that these factors should be considered in the successful implementation of any good governance initiatives. Consequently, the overall findings of this chapter have been largely used in Chapters 7, 8 and 9 for analysing, discussing and understanding the corporate governance environment in the UAE, in general, and, in particular, the ability of listed companies to comply with an international standard of corporate governance practices. The following chapter will discuss the literature in relation to the development of corporate governance practices.

Chapter 3: Development of Corporate Governance

3.1 Introduction

The need to enhance corporate governance has increased in many developed and developing countries over the past few decades (Brown & Caylor, 2006). Therefore, this research reviews the development of corporate governance practice around the world. To contribute to the aim of this research, this chapter will provide an introduction to corporate governance, which will be structured in nine sections. Section 3.2 reviews the definitions of corporate governance, while Section 3.3 discusses corporate governance systems. Emergence of corporate governance in the western world such as the UK, US and Australia is reviewed in Section 3.4, followed by comparison of the corporate governance approach in the US, the UK and Australia in Section 3.5 and corporate governance. Details about the OECD Principles of Corporate Governance are presented in Section 3.6, followed by an explanation of corporate governance mechanisms in Section 3.7. The final section provides the conclusion for the chapter.

3.2 Definitions of Corporate Governance

There has been increasing emphasis on corporate governance, both in terms of practice and in academic research (Ali Shah, Butt & Hassan, 2009; Bebchuk, Cohen & Ferrell, 2009). This is due to the collapse of many companies worldwide, such as WorldCom, Enrol and Arthur Andersen (Dao, 2008). However, Ramon (2001), as cited in (Mulili & Wong, 2011), states that differences in culture, legal systems and historical developments from country to country make it difficult to identify one definition of corporate governance. Corporate governance as a discipline in its own right is relatively new, with researchers in the disciplines of law, economics, accountancy and management all developing their own ideas about how it should be defined (Armstrong, 2005). The concept of corporate governance can be viewed from at least two perspectives—the narrow view and the broad perspective (Olayiwola, 2010)—depending on the view of the policymakers, practitioners and theorists (Solomon, 2010). The narrow standpoint aims to maximise and protect the shareholder, while from the broader viewpoint, the corporation is responsible for a wider constituency of stakeholders other than shareholders (Maher & Andersson, 2000).

From the narrow viewpoint, Shleifer and Vishny (1997) define corporate governance in terms of the ways in which suppliers of finance to a firm assure themselves of a good return to their investment. This definition is shallow in that it emphasises the suppliers of finance and does not recognise the relationships between a firm's stakeholders and managers. Similarly, the Cadbury Committee defines a governance system as 'the system by which companies are directed and controlled' (Cadbury, 1992). The Australian Standard (2003) defines corporate governance as the process by which organisations are directed, controlled and held to account.

Sheikh and Chatterjee (1995, p. 5) define corporate governance as 'a system whereby directors are entrusted with responsibilities and duties in relation to the direction of a company's affairs', while Sternberg (2004, p. 28) views it as 'ways of ensuring that corporate actions, agents and assets are directed at achieving the corporate objective established by the corporation's shareholders'.

The ASX Corporate Governance Council defines corporate governance (2007, p. 3) as:

> The framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. It encompasses the mechanisms by which companies, and those in control, are held to account. Corporate governance influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimized.

Lin and Hwang (2010, p. 59) define the benefits of well-organised corporate governance as follows: 'A good corporate governance structure helps ensure that the management properly utilizes the enterprises resources in the best interest of absentee owners, and fairly reports the financial condition and operating performance of the enterprise'.

These definitions are consistent with the views of some researchers who argue that the main obligation of a company is towards maximising the wealth of its shareholders (Friedman, 2008; Sternberg, 2004; Sundaram & Inkpen, 2004). The narrow perspective of these definitions is consistent with the conventional finance model that can be explained through the agency theory. The shareholder plays the role of principal and the manager is the agent. This view is similar to a recent definition of the Walker Review (2009, p. 23), which asserts that ‘the role of corporate governance is to protect and advance the interests of shareholders through setting the strategic direction of a company and appointing and monitoring capable management to achieve this’.

The OECD (2004, p. 11) defines corporate governance as: ‘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 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 this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance (OECD, 1999).

In this case, the company is considered a social entity that has accountability and responsibility to a variety of stakeholders, encompassing shareholders, creditors, suppliers, customers, employees, management, government and the local community (Freeman & Reed, 1983; West, 2006; Mallin, 2007). Rezaee (2009) describes corporate governance as an ongoing process of managing, controlling and assessing business affairs to create shareholder value and protect the interests of other stakeholders. According to this definition, there are seven important functions of corporate governance: oversight, managerial, compliance, internal audit, advisory, external audit and monitoring.

These definitions support other schools that argue that a firm has an obligation not only to its shareholders, but to all stakeholders, whose contributions are necessary for the success of the firm (Donaldson & Preston, 1995; Freeman, 1984). In these terms, Solomon (2010, p. 6) defines corporate governance as ‘the system of checks and balance, both internal and external to companies, which ensure that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity’.

The aim of corporate governance is to facilitate the efficient use of resources by reducing fraud and mismanagement with the view not only to maximise, but also to align the often conflicting interests of all stakeholders (Cadbury, 1999; King Report, 2002). Thus, this view considers a corporation to be an extension of its owners, with its central aim being to provide goods or services to customers, primarily to maximise the wealth of its owners (West, 2006).

According to Mallin (2010), the essential features of corporate governance are that: it assists in ensuring that an adequate and appropriate system of controls operates within a company and that assets may therefore be safeguarded; it avoids any single individual having too much influence; and it tries to encourage both transparency and accountability in the relationship between company management, the board of directors and other stakeholders, which investors are increasingly looking for in both corporate management and performance.

Sheridan and Kendall (1992) emphasise that achieving good corporate governance requires a system of structured operation and control that fulfils the following objectives:

- achieve a long-term strategy of goals of the owner to maximise shareholder value or control market share
- secure the interests of employees at all times and ensure that they are guaranteed a positive working atmosphere, further training courses, health coverage and fair retirement packages
- maintain excellent long-term relations with customers and suppliers in terms of service, quality and financial settlement procedures
- comply with all relevant legal and regulatory requirements.

In addition, the primary concern of corporate governance is how effectively different governance systems manage the relationship with the various stakeholders (Maher & Andersson, 2000). Allen (2005) finds that the stakeholder model of corporate governance is more useful to developing countries, as pursuing their interest might help overcome the market failure in these economies. Iqbal and Mirakhor (2004) examine the conventional stakeholder theory of corporate governance, which views a firm as a 'nexus-of-contracts' with different stakeholders, and they highlight that the firm's objective should be to maximise the welfare of all stakeholders. The results suggest that research participants take a broad view of the corporate governance concept, with recognition of a wide range of stakeholders evident (Wanyama, Burton & Helliar, 2013). In the MENA countries, the concept of corporate governance is not clearly understood. Many directors and managers, and even academics, have difficulty distinguishing between corporate governance issues and business management issues (Boutros-Ghali, 2002).

This research adopts the definition used by the OECD Principles (2004) because the definition is comprehensive and covers the whole framework of corporate governance. In this study, the firms control and direct not only the relationship between shareholders, management and the board, but they are also viewed as having responsibilities towards all stakeholders. Therefore, this stakeholder perspective, which is advocated by the OECD Principles of Corporate Governance, will be examined in this research.

3.3 Corporate Governance Systems

Corporate governance systems play an essential role in economic performance because they offer mechanisms that influence returns on investment by suppliers of external finance to firms (Edwards & Nibler, 2000). The system of corporate governance can differ to a considerable degree depending on the mechanisms that the owners of a corporation use to influence managers (Davis & Useem, 2000). Corporate governance systems vary from country to country in a variety of capitalism systems in which they are embedded (Giurca Vasilescu, 2008). Therefore, different models of corporate governance have been applied throughout the world, and each model has its own characteristics and features (Hasan, 2009). These models are divided into two types (Nestor & Thompson, 2000):

- Outsider models (unitary system): A good example is the US and other English-language-speaking countries; it is also called the Anglo-Saxon model.
- Insider models (dual system): This system is applied on the European continent; the best example is the German model.

Both systems have grown from different institutional, regulatory and political environments, but with an internally consistent governance system and a unique mixture of corporate control (Babic, 2003).

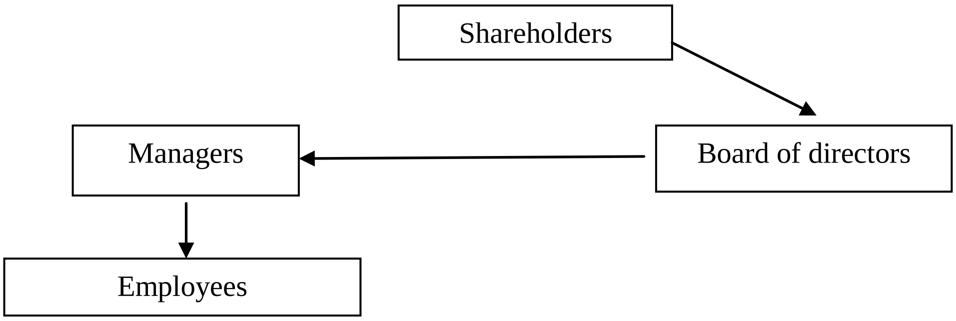
Shleifer and Vishny (1997) supported a two-system classification to consider corporate governance problems. The system consists of the following: (1) unitary systems, such as those in the US and the UK, that tend to rely more on managerial compensation and the market for corporate control; and (2) dual systems, such as those in Germany, France or Spain, which tend to use control by large incumbent shareholders to align the behaviour of managers and owners.

Weimer and Pape (1999) reached a similar classification distinguishing between unitary and dual systems of corporate governance. The paramount characteristic of the market-oriented systems is an active external market for corporate control, which is a mechanism for independent shareholders to influence managerial decision-making. Such markets include stock, labour and hostile takeover markets. By contrast, in the dual systems, oligarchic groups with different identities substantially sway managerial decision-making by more direct modes of influence. In particular, the limited voting rights of independent shareholders, cross-shareholdings and interlocking directorships indicate the network orientation.

3.3.1 Anglo–American model (outsider model)

In the Anglo–Saxon system, the company concept is based on a fiduciary relationship between shareholders and management. The Anglo–Saxon system is founded on the notion that self-interest and decentralised markets can function in a self-regulating, balanced manner, and it is based on the concept of market capitalism (Cernat, 2004). Thus, companies have generally similar models of corporate governance in Anglo–American countries (UK, US, Australia and Canada). This model includes one independent board of directors, which monitors and controls management's activity for the purpose of improving it. The International Chamber of Commerce shows that ownership is concentrated in the Anglo–Saxon model, with few people having authority over the management team, and that there is a poor shelter for minority investors who call for independent director support, which is done through an executive chairman (Hasan, 2009).

Figure 3.1 Anglo–Saxon Model of Corporate Governance



Source: Cernat (2004, p. 153)

Figure 3.1 shows that the Anglo–Saxon model is founded on the relationship between the shareholders and the managers. Shareholders need to have strong legal protection under the Anglo–Saxon model because this structure of corporate ownership is widely dispersed and the effect of shareholders on management is weak. The function of corporate governance in the Anglo–Saxon system is to protect the interests and rights of the shareholders (Hasan, 2009).

3.3.2 Continental model of corporate governance (insider model)

The stakeholders model is focused on a relationship-based model that emphasises the maximisation of the interests of a broader group of stakeholders (Donaldson & Preston, 1995). The Continental European (German) model of corporate governance (specific to companies from continental Europe, as well from Japan) focuses on the interests of workers, managers, suppliers, customers and the community, and it facilitates innovation and competition (Giurca Vasilescu, 2008). The same concept is also being applied in France, where the board of directors and the managers hold duties not only to the company itself, but also to employees, the trade union, the works council and the public (Snyder, 2007). The underlying principle on which the Continental corporate governance system is based is embodied in the stakeholder theory of the firm. The Continental capitalist model considers not only the interests of shareholders, but also input from the relevant stakeholders (Cernat, 2004).

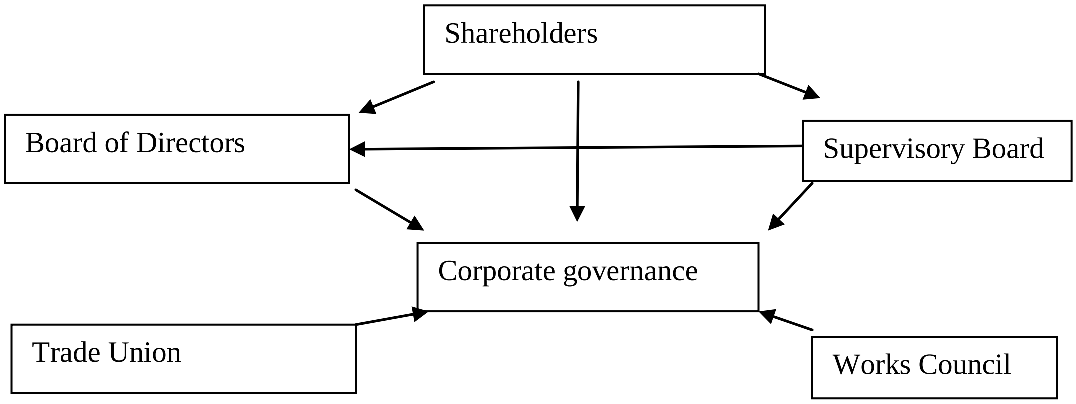
The German model is concentrated on the banking system. Although banks have strong influence and control over their governance system, they do not have high stocks as a part of firms they finance in Germany and Japan. The main advantage of this model is the monitoring and flexible financing of firms (Giurca Vasilescu, 2008). Therefore, many European countries, such as Germany, France and Greece, practice the stakeholder's model of corporate governance in many large firms as part of the social and economic structure (Maher & Anderson, 2000). The Continental model is based on three propositions, which are clearly in opposition to those of the Anglo–Saxon model. These three propositions are concerned with stakeholder interests, rights and the manager's responsibilities, which can be summarised as follows (Iqbal & Mirakhor, 2004):

- maximising stakeholders' interests, not only those of stockholders, as in the Anglo–Saxon Model
- all stakeholders have the right to participate in corporate decisions
- managers are responsible for protecting stakeholders' interests.

Figure 3.2 shows that the Continental model is based on the relationship between the shareholders, board of directors and the supervisory board, based on the prominent role of banks and extensive ownership related to finance and control (Cernat, 2004). The supervisory board usually comprises many stakeholders, including investors (shareholders and creditors/banks), employees (union groups), suppliers, customers and government appointees representing broader segments of society (e.g., Schilling, 2001; West, 2006). In Germany, the corporate governance framework mainly concerns a few hundred large firms with more than 2,000 employees, which are listed on the stock exchanges and operate on the two-tier system—that is, a supervisory and management board system (Hasan, 2009).

The legal system plays a very small role in German corporate governance. A two-tiered system consists of a board directors and a supervisory board, which has the power to elect the board of directors. However, the supervisory boards do not have much decision-making responsibility, and co-determination undermines their monitoring effectiveness. For shareholders to take legal action against management in the case of negligence, it would take a majority at a general meeting, or 10%, to file a court petition (Scott, 1998).

Figure 3.2 Corporate Governance of the Continental Model



Source: Cernat (2004, p. 153)

Comparative analysis of the advantages and disadvantages of both models of corporate governance—the Anglo–American and German–Japanese model—suggests that a company's system of governance may be enhanced by the following factors (Giurca Vasilescu, 2008):

- the competitiveness of products and services, which influences the corporate governance of a company
- the capital market, which actually presents official recognition of a firm's performances, and implicitly of management's, through the level of the firm's share prices
- the institutional investors represent a potential force to influence the governance of a company
- labour market for managers, which sanctions the managers who receive excessive benefits without having performed well, by replacing them in the managing board.

Table 3.1 A Comparison of US and German Governance Systems

Aspects	U.S	Germany
Executive compensation	High	Moderate
Board of directors	Primarily outsiders	Management/ supervisory
Ownership	Diffuse/ non-corporate	Concentrated: high family/ Corporate/ bank
Capital markets	Very liquid	Relatively illiquid
Takeover/ control market	Major	Minor
Banking system	Fragmented	Universal banking

Source: Kaplan (1997)

3.4 Emergence of Corporate Governance in the Western World

The importance of corporate governance became dramatically clear at the beginning of the 21st century, as a series of corporate meltdowns arising from managerial fraud, misconduct and negligence caused a massive loss of shareholder wealth (Baker & Anderson, 2010). In the late 1980s, governance failure in the USA and financial scandals leading to the collapse of several prominent companies came to light in the UK and the US (Iskander & Chamlou 2000). The spectacular collapses of Enron, WorldCom, Tyco and Global Crossing in the US, HIH in Australia and Robert Maxwell MMC, BCCI and Polly Peck in the UK were obviously key motivators for the heightened interest in corporate governance (Anandarajah 2004; Jongsureyapart & Wise, 2011). Therefore, this section will review the emergence of corporate governance in the western countries, in particular USA, UK and Australia, which face the financial crises and collapse companies in last decades.

3.4.1 Corporate governance in the UK

The development of corporate governance has attracted more attention in the UK since the series of corporate collapses and scandals in the late 1980s and early 1990s, including the BCCI bank and Robert Maxwell pension funds (Financial Reporting Council (FRC), 2006; Jones & Pollitt, 2001). As a result, the Committee on the Financial Aspects of Corporate Governance, chaired by Sir Adrian Cadbury, was set up in 1992 (Cadbury Report, 1992). This Committee evaluated the effectiveness of audits and was to consider the relationship between shareholders, directors and auditors by investigating the structure and responsibilities of the boards of directors (Rayton & Cheng, 2004). The Cadbury Report highlighted a number of recommendations about the operation of the main board, as well as the establishment, composition and operation of the key board committee, the importance of non-executive directors, the transparency of financial reporting and the code of best practice. These recommendations were incorporated into the London Stock Exchange (LSE) Listing Rules in 1992.

In 1995, the Confederation of British Industry launched a group study, chaired by Sir Richard Greenburg, in response to public and shareholder concern about the remuneration of directors (Greenbury Report, 1995). These concerns about executive remuneration were in three areas: the size of basic pay increases; the large gains from share options, particularly in the recently privatised energy and water utilities; and the compensation payments to directors on loss of office (Short, 1999). The Study Group on Directors' Remuneration had the following terms of reference: to identify good practice in determining direct remuneration and prepare a code of such practice for use by the UK.

The Greenbury Committee's Code of Best Practice deals specifically with the following: the establishment, membership and status of remuneration committees; the determinants of remuneration policy for executive directors and other senior executives; the disclosure and approval of the details of remuneration policy; and the length of service contracts and the determination of compensation when these are terminated (James, 1996).

The Cadbury Committee suggested that the FRC should establish a new committee to review the implementation and compliance with its recommendations and identify whether there was a need to update the code (Cadbury, 1992); a similar recommendation was followed by the Greenbury Committee. This new committee was chaired by the FRC in 1995 and sponsored by the LSE, the Confederation of British Industry, the Institute of Directors, the Consultative Committee of Accountancy Bodies, the National Association of Pension Funds and the Association of British Insurers (Hampel Report, 1998). The Hampel Report was released in 1998 and included 17 'principles of corporate governance' structured into four distinctive categories: directors, directors' remuneration, shareholders, and accountability and audit (Short, 1999). The terms of the remit were as follows: 'the committee will seek to promote high standards of corporate governance in the interests of investor protection and in order to preserve and enhance the standing of companies listed on the Stock Exchange' (Rayton & Cheng, 2004).

In 1999, the Turnbull Committee was formed to review the effectiveness of the internal control system and offered clear guidelines. The Committee was chaired by Nigel Turnbull (Solomon, 2010) and was intended to 'provide guidance to assist listed companies to implement the requirements in the code relating to internal control' (Kendrick, 2000). This guidance covered five key areas: the importance of internal control and risk management, maintaining a sound system of internal control, reviewing the effectiveness of internal control, the board statement on internal control, and internal audit (Vinten, 2001). Thereafter, the Institute of Chartered Accountants in England and Wales established the Guidance Internal Control: Guidance for Directors on the Combined Code in 1999 based on the Turnbull Committee's report.

Corporate scandals such as Enron and WorldCom in the US revealed some difficulties in the corporate governance system in the US, which led to concern about the system of corporate governance in the UK (FRC, 2006). Therefore, the Smith Committee was formed and chaired by Sir Robert Smith in 2002. The main aim of the Smith Committee was to review the effectiveness of audit committees. Its focus was 'to assist a company board in making suitable arrangements for their audit committees, and to assist directors serving on audit committees in carrying out their role' (Smith Report, 2003), as audit committees and internal auditing were one of the main reasons for the failure of the Enron case in the US (Solomon, 2010). The main recommendations of the Smith Committee were that there should be no less than three independent non-executive directors involved in the audit committee, and that one of the three members should have experience related to finance (Smith Report, 2003).

Additionally, in response to the scandals of corporate failure in 2001 in the US, the Higgs Committee was set up by the Secretary of State for Trade and Industry and the Chancellor of the Exchequer in 2002, and it was nominated by Derek Higgs to assess the effectiveness of non-executive directors (Jones & Pollitt, 2001). Therefore, the Higgs Report was launched in 2003 to offer guidance for non-executives and chairmen. It also presented recommendations that aimed to improve transparency in the director nomination and appointment processes and to increase multi-experience in boardrooms

(Rayton & Cheng, 2004). However, the Higgs Report was critical in three main respects: the identification of a senior independent non-executive director; a chief executive of the company should not become the chairman; and at least half of the board members should be independent non-executive directors (Dewing & Russell, 2004).

Both the Smith and Higgs reports stated that the development of a corporate governance system is sound, but they suggested reviewing the combined code to get the best practice in the UK. As a result, the FRC formed a working group, which included Smith and Higgs, to revise the combined code (Jones & Pollitt, 2001). Many of the recommendations on audit committees and non-executives of directors that were established by the Smith and Higgs reports were incorporated in the new combined code (Rezaee, 2009). The FRC set up the new combined code in 2003, which included guidance from Turnbull, Smith and Higgs.

In 2004, the Turnbull Review Group was formed by the FRC to investigate the effect of guidance and linked disclosures and to determine whether the guidance needed to be enhanced. The new revision was established in 2005 to support directors to evaluate how their companies had implemented the requirements of the Combined Code relating to internal control and how to manage risk and internal control (Mallin, 2010). Following the Turnbull Review, the new Combined Code was set up in 2006 and introduced the following key principles: the roles of a company's chairperson and chief executive; the composition of the company's board of directors; and the composition of the board's three main committees, namely the Nominations, Remuneration and Audit Committees (Pass, 2006).

In 2009, the Turner Review was set up in response to recommendations regarding the changes in regulation and the supervisory approach based on the Chancellor of the Exchequer's request in October 2008 for the assessment of the causes of the then-current crisis (Turner, 2009). This review supported the changes that have occurred in the approach of corporate governance in financial crises and highlighted the important features of corporate governance: risk, risk management and internal control within corporate governance (Solomon, 2010). However, Tourani-Rad and Ingley (2010) argue that because the Turner Review did not investigate issues of the ineffectiveness of internal risk management with boards of directors to reduce risk-taking in depth, the UK government formed a review of bank governance by Sir David Walker.

This review was set up in 2009 to study corporate governance in the UK banking industry and create recommendations to embrace: the effectiveness of risk management at the board level; the skills, experience and independence of boards; the effectiveness of board practice; the role of institutional shareholders; and how national and global practice can be spread (Walker Review, 2009). At the same time, the FRC asked for the next revision of the Combined Code in the UK (Mizuno & Tabner, 2009). The new Combined Code was established in 2010, and the main principles of the code are: leadership, effectiveness, remuneration, relations with shareholders and accountability (FRC, 2010).

3.4.2 Corporate governance in the US

Corporate governance is a 'hot topic' in the US, with more literature and research on the governance area having been conducted there than in any other country in the world (Solomon & Solomon, 2004). For instance, the discussion on corporate governance in the US began in 1932 with a book by Berle and Means (Hopt, 1994). Since then, the Business Roundtable has addressed corporate governance issues, including the Role and Composition of the Board of Directors of the Large Publicly Owned Corporation in 1978 and the Statement on Corporate Responsibility in 1981 (Business Roundtable, 1997). In addition, the new project of the Institute of Internal Auditors (IIA) was chaired by Ray Garrett, former chairman of the Securities and Exchange Commission (SEC). In 1982, this institute provided principles of corporate governance: analysis and recommendation (National Commission on Fraudulent Financial Reporting and Treadway Commission, 1987).

In 1987, the National Commission on Fraudulent Financial Reporting launched recommendations about decreasing financial statement fraud, with these recommendations appropriate for the SEC, external auditors, accounting educators, public companies and regulators (National Commission on Fraudulent Financial Reporting and Treadway Commission, 1987). Moreover, the Business Roundtable launched its statement on Corporate Governance and American Competitiveness in 1990, as well as a statement on corporate governance in the US in 1997. This statement focused on the function of the board, structure and operation, as well as stockholder meetings. In 1998, corporate governance principles and recommendations were established by the California Public Employees’ Retirement System (CaIPERS). These issues focused on accountability in governance and also solved matters such as board process and evaluation, individual director characteristics, and shareowner rights (CaIPERS, 1998). At the same time, in 1998, a committee was formed by the NYSE and the National Association of Corporate Directors and the Centre (NACD) to investigate audit committee effectiveness. In 1999, this committee released its report, which was known as the Blue Ribbon Committee (Blue Ribbon Committee, 1999; NACD, 2000).

The National Association of Corporate Directors and the Centre for Board Leadership launched the Report of the NACD Blue Ribbon Commission on Director Professionalism. This report included four areas: Responsibilities—What Boards Should Do; Processes—How Boards Should Fulfil Their Responsibilities; Selection—Who Directors Should Be; Evaluation—How Boards and Directors Should be Judged. The aim of the NACD is to shine a spotlight on defining, establishing and refining ‘best practices’ in order to enhance board performance. Therefore, the Centre for Board Leadership has conducted research related to enhancing boardroom performance through board topics and holding roundtable debates with CEOs and directors (NACD, 2001a, b).

The Enron scandal prompted more attention to developing corporate governance as a response by the Centre of Corporate Governance (CCG) and the IIA Research Foundation. For instance, the Centre of Corporate Governance at Kennesaw State University aims to emphasise audit committees and entrepreneurial companies in particular in order to improve effective corporate governance for public, private and non-profit enterprises (Centre of Corporate Governance and Kennesaw, 2002). The Center launched 10 principles: Interaction, Board Purpose, Board Responsibilities, Independence, Expertise, Meetings and Information, Leadership, Disclosure, Committees and Internal Audit (Hermanson & Rittenberg, 2003).

Significant changes to US federal securities laws since the 1930s legislation were a result of the Sarbanes–Oxley Act in 2002 (Calder, 2008). The SEC requested the enhancement of accountability, integrity and transparency during a review of its listed companies in its corporate governance listing standards in 2002. The committee report was promoted by President George W. Bush, SEC Chairman Harvey Pitt, institutional investors and state pension funds, leading academics and commentators, the Business Roundtable and the Council of Institutional Investors, members of Congress, and CEOs of listed companies (NYSE, 2002).

The Conference Board Commission on Public Trust and Private Enterprise was established to solve circumstances resulting from the recent corporate scandals and subsequent decline of confidence in US capital markets. The Board Commission's work focused on three main aspects: corporate governance, auditing and accounting, and executive compensation. The first report was on executive compensation and released in September 2002. The second report was on Corporate Governance: Principles, Recommendations and Specific Best Practice Suggestions. This report concentrated on the relationship between the board and management, fulfilling the board's responsibilities, director qualifications, role of the nominating/governance committee, board evaluation, hiring special investigative counsel, shareowner involvement and long-term share ownership (Conference Board, 2003).

In 2003, the Hon. Jed S. Rakoff of the US District Court for the Southern District released the 'Restoring Trust' report concerning WorldCom Inc. in November 2002. This report included 78 recommendations in 10 main areas: board of directors, board leadership and the chairman of the board, board compensation, executive compensation, audit committee, governance committee, compensation committee, risk management committee, general corporate issues, and legal and ethics programs (Breeden, 2003). In addition, in November 2003, the SEC gave consent to the final corporate governance rules of the NYSE, which were incorporated into Section 303A of the NYSE's Listed Company Manual. The companies were required to comply with the rules and disclosure in the annual report in these aspects: independent directors, non-management directors, corporate governance committee, compensation committee, audit committee membership, authority and responsibilities of the audit committee, shareholder control and corporate governance guidelines (NYSE, 2003).

In addition, the Chartered Financial Analyst (CFA) Institute Centre for Financial Market Integrity set up the Asset Manager Code of Professional Conduct draft for industry debate and observation in 2004. The code was set up to extend the CFA Institute Code of Ethics and Standards of Professional Conduct to address individual conduct. This code is a guideline to managers globally and includes: Loyalty to Clients, Investment Process and Actions, Trading, Compliance and Support, Performance and Valuation, and Disclosures (CFA Institute Centre, 2004). In 2005, the NYSE set up the Proxy Working Group (PWG) to evaluate the voting and proxy process, including rules that allow brokers to vote on certain issues on behalf of the beneficial owners of shares. In 2006, the PWG report was published with recommendations to both the NYSE and the SEC to develop the proxy voting system.

In 2007, the Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA–CREF) set up corporate governance policies. Its Statement of Policy inquired about: maintaining a culture of integrity; contributing to the strength and continuity of corporate leadership; guaranteeing board and management accountability; and encouraging the long-term growth and profitability of the business enterprise. These corporate governance policies involved shareholder rights, director elections, majority voting, the board of directors, board structure and processes, board responsibilities, executive compensation, TIAA–CREF corporate governance program, international governance, environmental and social issues, and securities lending policy (TIAA–CREF, 2007).

Following the governance policies of TIAA–CREF 2007, the National Association of Corporate Directors set up ‘Agreed Principles’ as a framework for strengthening governance for the US. Publicly traded companies were to assist in enhancing the quality of arguments and move the debate on governance issues forward. These principles are: board responsibility for governance, corporate governance, transparency, director competency and commitment, board accountability and objectivity, independent board leadership, integrity, ethics and responsibility, attention to information, agenda and strategy, protection against board entrenchment, shareholder input in director selection, and shareholder communications (NACD, 2008).

In response to the financial crises of 2008 and 2009, the NYSE made a decision to support a comprehensive review of corporate governance principles that could be widely accepted and supported by issuers, investors, directors and other market participants and experts. In addition, the NYSE established the Commission on Corporate Governance in 2009 to debate fundamental topics of governance issues such as the proper role and scope of a director’s authority, management’s responsibility for governance, and the relationship between shareholders' trading activities, voting decisions and governance. The diverse Commission members analysed changes that had occurred over the past decade, their effect on how directors viewed their job, their relationship to management and shareholders, and how the current governance system generally worked (NYSE, 2010).

In addition, the SEC and other regulators highlighted major issues that have appeared due to fundamental changes to the governance of corporations, with corporate governance becoming a prominent issue both in the financial markets and with the public. Four foundation governance principles, which could be widely accepted and support by issuers, investors, directors and other market participants and experts, were set up for discussion by the NYSE in 2010.

3.4.3 Corporate governance in Australia

Corporate governance issues have been given more attention by the Australian government, business, institutional investors, professional advisers, consultants, academics, the Australian Stock Exchange (ASX) and the media over the past three decades (Stapledon, 2011). For instance, in 1990, a working group was formed by the ASX, the Australian Institute of Company Directors, the Business Council of Australia, the Security Institute of Australia and the Business Law (Bosch, 1991). The working group was chaired by Henry Bosch, chairman of the Australian National Companies and Securities Commission, and the first report of the working group was released under the title of 'Corporate Practices and Conduct' in 1991 (Bosch, 2002). Further issues of the Bosch Report on Corporate Practice and Conduct were published in 1993 and 1995. These reports cover a range of corporate governance issues, including: board structure and composition; appointment of non-executive directors; directors' remuneration; risk management; financial reporting and auditing; conflicts of interest; the role of the company secretary; and shareholders (Bosch, 1995).

Following the Bosch Report, another working group was chaired by chairman Fredrick Hilmer and released its report in 1993 entitled 'Strictly Boardroom: Improving Governance to Enhance Company Performance' (Hilmer, 1993). The second edition of the Hilmer Report was published in 1998 under the same name, with a few changes based on global developments in corporate governance, including an article in an appendix entitled 'The Fallacy of Independence' by Hilmer and Donaldson (1996). This report highlighted issues such as board composition, executive remuneration and disclosure from 1993 to 1998 (Hilmer, 1998).

In 1994, a media release of the ASX stated that it ‘wished to take a leadership role in helping to promote corporate governance standards for listed companies’ (Ramsay & Hoad, 1997, p. 2). For instance, in 1995, the ASX introduced Listing Rule 3c(3) (i), which requires listed companies to apply these rules from their first financial reporting in 1995 (Collett & Hrasky, 2005). In 1996, the ASX established Listing Rule 4.10.3, which replaced Rule 3c (3) (i). The objective of this rule is to support listed companies in the introduction of a statement of corporate governance practice (Mallin, 2011). This rule followed the one implemented by the LSE, which was based on the recommendations of the 1992 Cadbury Committee (Ramsay & Hoad, 1997).

The ASX presented guidance in the form of Listing Rule 4.10.3, which focused on four main areas: annual report disclosure, directors, audit and business risk (Listing Rule 4.10.3). In addition, the Treasurer published the Corporate Law Economic Reform Program (CLERP) in 1997, which proposed that Australian business and company regulations be developed to encourage business, economic development and employment (Australia Treasury, 1998). However, a 1997 survey by the Australian Investment Managers Association (AIMA) about the disclosure of corporate governance practice in 100 large Australian companies found that just 10% of large companies give attention to disclosing corporate governance practice statements in their annual report. A study by the Australian Institute of Company Directors and KPMG surveyed 514 directors from different types of companies and found that only 32% of directors surveyed applied a number of corporate governance initiatives (Ramsay & Hoad, 1997).

A guide on good corporate governance practices for investment managers was published in 1995 in the Blue Book (Clark, 2005) under the title Corporate Governance: A Guide for Investment Managers and a Statement of Recommended Corporate Practice by the AIMA or Investment and Financial Services Association (IFSA, 1995). This guide was revised in 1997, 1999, 2002, 2004 and 2009 (IFSA Blue Book, 1997, 1999, 2002, 2004, 2009); it included four guides for managers from 1999 to 2004 but currently extends to five guides: Communication, Voting, Proxy Voting Policy and Procedures, Reporting to Clients, and Environmental and Social Issues and Corporate Governance (Du Plessis et al., 2011).

In addition to guidelines for managers, there are guidelines for corporations. These guidelines included 13 guides in 1999 and 14 in 2004. There are currently 18 guides (IFSA, 1997, 1999, 2002, 2004, 2009): annual disclosure, composition of the board of directors, chairperson to be an independent director, board committees generally, key board committees, appointment of non-executive directors, performance evaluation, equity participation by non-executive directors, respective roles of the board and management, board and executive remuneration policy and disclosure, company meetings, disclosure of beneficial shareholder information, major corporate changes, company codes of ethics, share and option schemes, format of resolutions, trading by directors and senior management, election of directors, and number of permissible directorships an individual may hold (IFSA, 2009).

Global scandals and corporate failures such as Enron, World Com, Health South and Global Crossing in the US, as well as Australian corporate collapses such as general insurers (HHH) and retailers (Harris Scarfe), have directed more attention to corporate governance issues in Australia (Stapledon, 2011). Hence, in 2002, the corporate governance council was launched by the ASX (ASX, 2003). This Council embraces representatives from 21 industry and regulatory bodies operating in Australia: Association of Superannuation Funds of Australia Limited, Australasian Investor Relations Association, Australian Council of Superannuation Investors, Australian Stock Exchange Limited, Australian Institute of Company Directors, Australian Institute of Superannuation Trustees, Australian Shareholders’ Association, Business Council of Australia, Chartered Secretaries Australia, CPA Australia Ltd, Securities Institute of Australia, Group of 100, Institute of Actuaries of Australia, Institute of Chartered Accountants in Australia, Institute of Internal Auditors Australia, Investment and Financial Services Association, Law Council of Australia, Property Council of Australia, National Institute of Accountants, and Securities & Derivatives Industry Association (ASX, 2003).

In 2003, the ASX Corporate Governance Council released 10 important Principles of Good Corporate Governance and 28 associated recommendations relating to the best practice of corporate governance appropriate to listed companies in Australia (Henry, 2008). These principles are as follows: lay solid foundations for management and oversight, structure the board to add value, promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely and balanced disclosure, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly, and recognise the legitimate interests of stakeholders (ASX, 2003). Each principle contains recommendations that support the framework of corporate governance and give flexibility to all companies to consider an appropriate structure of governance (Ablen, 2003).

Following the Principles of Good Corporate Governance and recommendations for best corporate governance practice, an ASX media release highlighted that during the 2004 annual reports, companies followed or dealt with four main policies of corporate governance: board of directors and its committees, internal control framework and ethical standards, business, and role of shareholders (ASX Corporate Governance Council, 2008). In addition, the Corporate Law Economic Reform Program (CLERP9) became law in Australia in 2004. This law highlighted issues such as director liability, disclosure and shareholder participation, and it also preserved the notions of investor protection and confidence as being essential in the market.

In 2006, the ASX offered some proposals to develop the disclosure of corporate governance practice in companies. These suggestions were intended to enhance compliance with Listing Rule 4.10.3 by following the recommendations; further, these proposals indicated that some information was presented by other annual reports or websites, and this information was not located in statements of corporate governance (ASX, 2006). According to the annual Horwath rating from 2001 to 2006, ASX Corporate Governance Council principles and recommendations contributed to the development of some aspects of corporate governance practice in 250 large Australian companies (Psaros, 2009).

The second edition of the ASX's governance principles and recommendations was established in 2007 by the ASX Corporate Governance Council, with a reduction to eight governance principles and 27 best practice recommendations. Principle 8 was moved to principles 1 and 2, and principle 10 was relocated to principles 3 and 7 (ASX, 2007). These guidelines are of interest to 'shareholders, employee customers, suppliers, creditors, consumers and broader community as interested parties' (Farrar, 2008). Moreover, in 2008, the Australian Prudential Regulation Authority (APRA) launched its own approach to the issue of executive remuneration and excessive risk-taking, with its guidance focused on the board remuneration committee, remuneration polices and risk management (APRA, 2008).

In 2009, the ASX reviewed corporate governance reporting and found that companies were continuing with a high level of corporate governance reporting, focusing on five main areas in particular: Independence of Directors, Trading Policies, Risk Management, Remuneration Committes and Diversity. The Chief Supervision Officer of the ASX said that ‘a culture of sound corporate governance transparency has developed among ASX listed entities since the first Principles and Recommendations were introduced in 2003’ (ASX, 2010). An ASX media release (2010) pointed out that the ASX Corporate Governance Council had revised its principles and recommendations in 2010 to include amendments on diversity, remuneration, trading policies and briefings, which would affect financial reports in 2011.

3.5 Comparison of the Corporate Governance Approach in the US, the UK and Australia

The board of directors and the audit committee, as the central mechanisms for oversight and accountability in a corporate governance system, are charged with deciding on the direction of the corporation, including the responsibility for deciding how the board should be organised, how it should function and how it should order its priorities. The board and the audit committee also monitor the integrity of the financial statements of the company relating to the company’s financial performance, thereby reviewing significant financial reporting to monitor the effectiveness of the internal control and risk management systems (Weil & Manges, 2014). It is widely believed that the US, the UK and Australia have similar ownership structures, high levels of transparency, unitary board models and successfule capital markets. However, their historical origins and underlying principles are distinct and may lead to different corporate governance practices in these countries. The Table 3.2 shows a comparison of the corporate governance mechanisms (board size, leadership structure, board composition and audit committee) in the US, the UK and Australia.

Table 3.2 Comparison of the Corporate Governance Approach in the US, the UK and Australia

Governance mechanasims	US	UK	Australia
Board size	Boards should determine the appropriate board size and periodically assess overall board composition to ensure the most appropriate and effective board membership.	The board should be of sufficient size that the requirements of the business can be met and that changes to the board's composition and that of its committees can be managed without undue disruption, and should not be so large as to be unwieldy.	The board should be of sufficient size so that the requirements of the business can be met and changes to the composition of the board and its committees can be managed without undue disruption. However, it should not be so large as to be unwieldy.
Leadership structure	The purpose of creating these positions is not to add another layer of power but instead to ensure organization of, and accountability for, the thoughtful execution of certain critical independent director functions.	There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity
Board composition	Boards should require that independent directors fill the substantial majority of board seats. Boards should ensure that any director candidate under consideration, with the exception of their own CEO or senior managers, is independent.	The board should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.	A majority of the board of a listed entity should be independent directors. Having a majority of independent directors makes it harder for any individual or small group of individuals to dominate the board's decision-making.
Audit committee	The audit committee must have a minimum of three members. All audit committee members must satisfy the requirements for independence	The board should establish an audit committee of at least three independent non-executive directors. In addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman.	The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board .

Source: Weil & Manges (2014)

3.6 OECD Principles of Corporate Governance

The OECD was established based on Article 1 of the Convention signed in Paris on 14 December 1960, and it came into force on 30 September 1961. The OECD promotes policies designed to:

- achieve the highest sustainable economic growth and employment and a rising standard of living in member countries while maintaining financial stability and thus contributing to the development of the world economy
- contribute to sound economic expansion in member and non-member countries in the process of economic development
- contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The key function of the OECD is to provide management consulting to member governments. It researches and produces policies on a myriad of topics ranging from trade matters to environmental issues. It also has the power to make recommendations, which are non-binding agreements, and to make decisions, which are legally binding on the members. Therefore, in 1998, the OECD council meeting at the ministerial level asked the OECD in conjunction with interested bodies to develop a set of corporate governance standards and guidelines. In a 1999 meeting, OECD ministers established the principles of corporate governance, which were enhanced by an Ad Hoc Task Force on corporate governance (Maher & Andersson, 2000). These principles were adopted by the 30 member countries of the OECD as reference tools for countries worldwide (Jesover & Kirkpatrick, 2005).

The OECD seeks to promote governance reforms in close cooperation with other international organisations, especially under a joint program with the World Bank, and with the participation of the IMF to organise Regional Corporate Governance Roundtables. These Roundtables include senior policymakers, regulators and market participants in order to enhance understanding of governance and support regional reform efforts (Chowdary, 2002).

In 2000, the OECD Principles of Corporate Governance became one of the 12 core standards of global financial stability, and they are now used as a benchmark by international financial institutions (Cornford, 2004). The OECD Principles of Corporate

Governance were revised in 2004 to assist governments in their effort to evaluate and improve legal, institutional and regulatory frameworks for corporate governance in their countries. Therefore, the Principles also provide guidance in developing good corporate governance for those interested. Although cultural and institutional differences exist between countries, the underlying principles may allow a more fundamental compatibility (Jesover & Kirkpatrick, 2005).

In 2006, the OECD issued the methodology for assessing the implementation of the OECD Principles on Corporate Governance. The vital purpose of an assessment is to identify the nature and extent of specific strengths and weaknesses in corporate governance and thus highlight policy dialogue that will identify reform priorities leading to the enhancement of corporate governance and economic performance, as the principles are concerned in part with company law, securities regulation and the enforcement/legal systems (OECD, 2006).

The OECD Principles have been designed to be adaptable to different circumstances, cultures and traditions in different countries (Chowdary, 2002). These principles cover five areas: the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board. The OECD Principles became the basis of codes developed in many countries, as well as by industry bodies such as the International Corporate Governance Network and International Federation of Accountants, the International Organization of Securities Commissions and the activities of the Asian Development Bank and the World Bank in Roundtables in Asia (Ioana, 2007; OECD, 2003).

3.6.1 Rights of shareholders and key ownership functions

The corporate governance framework should protect and facilitate the exercise of shareholders' rights (OECD, 2004). The launching of good corporate governance controls prevents shareholders from gaining more control in countries where investor protection is low; this is reflected in measures of performance and market valuation (Doidge, Karolyi & Stulz, 2004). Klapper and Love (2004) suggest that good corporate governance practices are more essential in countries with inefficient enforcement and weak shareholder rights. Their study's findings have strong policy implications, recommending that it is even more important for firms to adopt good corporate governance practices in countries with weak legal systems. Mallin and Melis (2012) stress that competent boards should manage the company and ensure that effective strategies are prepared for the company's overall corporate performance and long-term sustainability because shareholders are the providers of risk capital and need to protect their investments. John, Litov and Yeung (2008) suggest that firms with better shareholder protection are more likely to engage in riskier investments that can create firm value.

According to King and Wen (2011), companies should ensure shareholders' rights to participate and vote in general shareholders meetings and select members of the board. Shareholders should also be provided with information that is relevant and material about the firm on a timely and regular basis (through the annual general meeting notice) (Karpoff, Malatesta & Walkling, 1996; Gillan & Starks, 2000). Shareholders' rights should be protected, including ownership rights (Cheung et al., 2011). Further, Murphy and Topyan (2005) state that the most significant feature of corporate governance is to protect the minority shareholders who are not active, compared to the large and active shareholders. The areas of shareholder rights are the main aspects of a sound corporate governance system (Mallin & Melis, 2012).

3.6.2 Equitable treatment of shareholders

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for the violation of their rights (OECD, 2004). The equitable treatment of all shareholders demands transparency with respect to the distribution of voting rights and the ways that voting rights are exercised. This principle also requires the disclosure of any material interests that management and board members have in transactions or matters affecting the corporation (Nestor & Jesover, 2000). Santiago-Castro and Brown (2011) investigate the relationship between the expropriation of minority shareholders' rights and firm performance in Latin American markets. They find that a lack of investor protection in emerging markets might cause the expropriation of minority shareholders' rights, leading to poorer performance.

The implementation of the principle of equitable treatment of all shareholders is important for good corporate governance in the UAE. An investment pattern that includes foreign institutional shareholders from countries with a strong institutional environment brings about improvements in the corporate governance of host firms (Wahyuni & Prabowo, 2012). This is because investing firms face performance pressure to ensure the proper monitoring of their foreign investment, which calls for enhancements to secure their investment (La Porta et al., 2000; Boardman, Shapiro & Vining, 1997). This implies that good corporate governance is based on equitable treatment, which ensures that members of the company or relevant shareholders do not receive benefits from commercial, financial or asset-involving operations, whether directly or indirectly (Salvioni & Bosetti, 2006).

As all shareholders should have the same voting rights, they should be able to obtain sufficient information about their voting rights before they purchase shares (Shanikat & Abbadi, 2011). Shareholders should have the opportunity to receive effective redress for violations of their rights. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders, whether directly or indirectly (Cheung et al., 2011). Further, internal control systems need to be established to prohibit the use of inside information (Givoly & Palmon, 1985). The ability of the firm to protect the minority shareholders' rights could be enhanced by the strong implementation of corporate governance (Chhaochharia & Laeven 2009).

3.6.3 Role of stakeholders in corporate governance

The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active cooperation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises. The stakeholders' principle focuses on the relationship between the corporation and stakeholders in creating value (OECD, 2004). This principle should cover the role of stakeholders to reflect the interaction with, and treatment of, stakeholders such as employees, creditors, suppliers, shareholders and the environment (Cheung et al., 2011). Allen, Carletti and Marquez (2007) argue that, in some circumstances, firms can voluntarily choose to be stakeholder-oriented, as this increases their value. Jensen (2010) states that a firm cannot maximise its value if it ignores the interests of its stakeholders. Consequently, stakeholder engagement associated with firm performance can be enhanced if the framework of stakeholder engagement provides an effective management system for corporate stakeholder engagement within the company (Sinclair, 2011).

The management has a responsibility to ensure that shareholders receive a fair return on their investments; it also has a responsibility to all stakeholders and should manage and alleviate the conflicts of interest that may exist between the firm and its stakeholders (Prugsamatz, 2010). Directors should be in a position of trust and should manage the company in a way that creates long-term sustainable value, while simultaneously considering their relationships with wider stakeholder groups the including employees, customers, suppliers and communities that their activities affect. Stakeholder relationships have direct and indirect effects on firm performance (Berman et al., 1999).

3.6.4 Disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company (OECD, 2004). A company information disclosure that consists of corporate performance disclosure and financial accounting disclosure is the principal means through which companies become transparent to all stakeholders (Gill, Vijay & Jha, 2009). The disclosure and transparency should show that the existence of policies and instructions are in line with the laws and a regulation relating to the company and the nature of the business (Shanikat & Abbadi, 2011). Therefore, transparency and disclosure are significant and fundamental features of corporate governance, which means that good disclosure practice is a form of good corporate governance. This is because the market might expect more serious information asymmetry problems if a company has poor information disclosure and transparency practices (Chen et al., 2007).

Patel, Balic and Bwakira (2002) report that higher transparency and better disclosure reduces the information asymmetry between a firm's management and stakeholders. Their results suggest that companies with lower transparency and disclosure are less valued than companies with higher transparency and disclosure. Chi (2009) states that better transparency and disclosure practices establish a stronger corporate governance practice, which leads to good corporate performance. Chi implies that the quality of corporate disclosure practice has a positive relationship with firm performance. Chiang and Chia (2005) also find that corporate transparency has a significant positive relationship with firm performance, concluding that transparency is one of the most essential indicators for evaluating corporate performance.

Improving transparency is one of the main aspects of corporate governance (Campbell & Keys, 2002); further, a good system of corporate governance calls for a high level of disclosure of financial information to reduce information asymmetry between all parties and to make corporate insiders accountable for their actions (Melis, 2004). A company should provide accurate disclosure in relation to all material matters concerning the firm, including the financial situation, performance, ownership and governance of the company (Cheung et al., 2011). Material information should be provided about members of the board of directors and key employees (Seal, 2006). External disclosure of material information, such as related-party transactions, external audit results and insider transactions, is a feature of a well-governed firm (Fan & Wong, 2005; Cheung, Rau & Stouraitis, 2006).

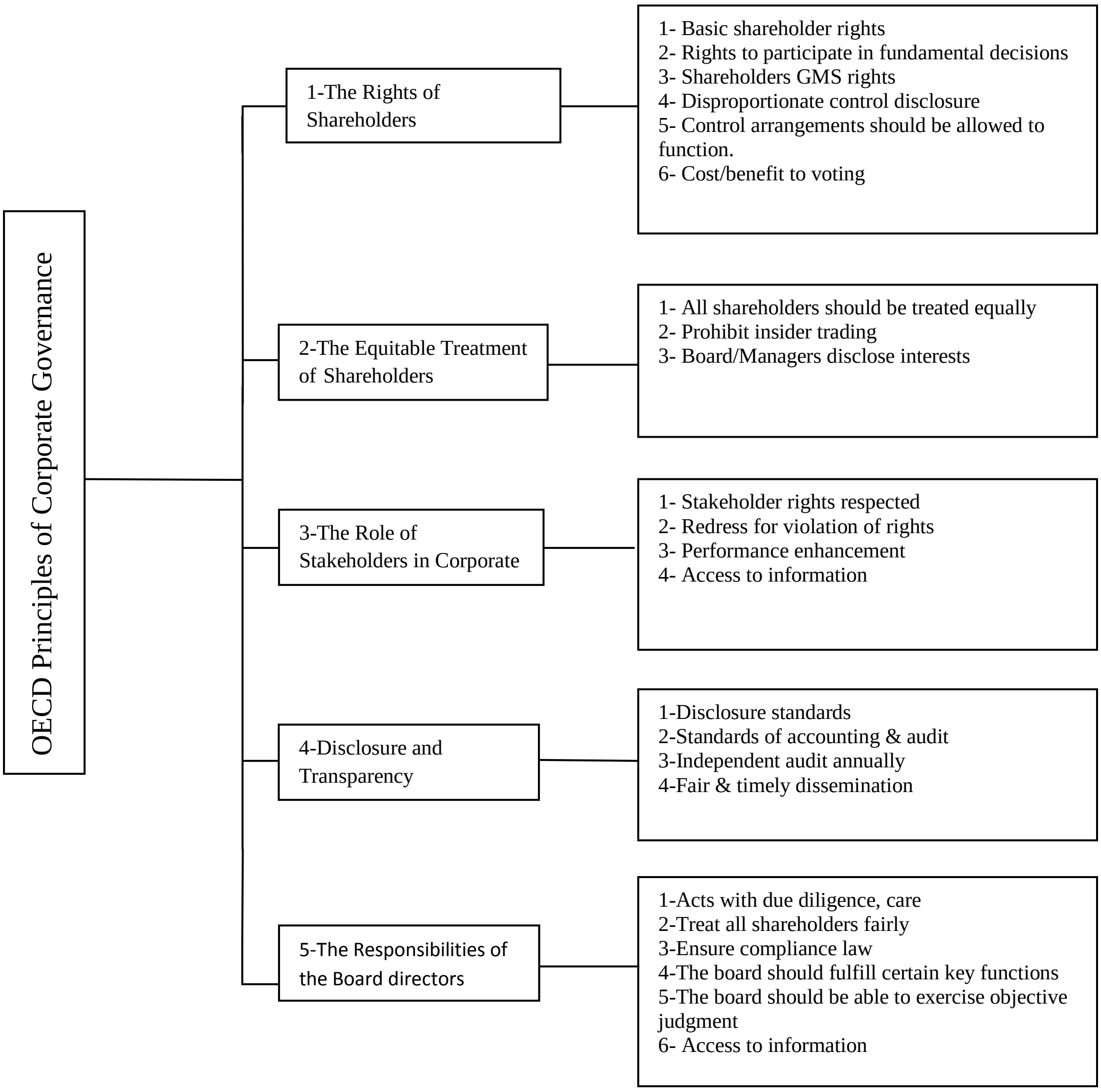
3.6.5 Responsibilities of the board

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and shareholders (OECD, 2004). The main responsibilities of the board are to make decisions on the business operations of the company and to manage the activities of the directors (Jang & Kim, 2001). The board of directors should be a well-functioning and effective board because it is an important aspect in enhancing corporate governance in market systems (Solomon, 2007; De Andres, Azofra & Lopez, 2005). The board of directors is responsible for formulating policies and strategies and supervising the operations of the company as its top executive unit (Ahmed & Gabor, 2012).

In addition, board members should direct and control the affairs of the company, act on a fully informed basis and in good faith with the best interests of the shareholders and all other stakeholders, and ensure compliance with applicable laws by management, shareholders and stakeholders (Awotundun, Kehinde & Somoye, 2011). This implies that the board acts as a mediator between the principals and the agents to ensure that capital is directed to the right objective. The board also performs an important function in the corporate governance framework: it is essentially responsible for monitoring management performance and achieving an adequate return for investors (Ongore & K’Obonyo, 2011).

The board of directors is an important aspect of corporate governance for aligning the interests of managers and all stakeholders. Board members are competent and experienced people with different viewpoints who represent a valuable resource for corporate boards. The board provides advice and support to managers to improve their decision-making process (Donaldson & Davis, 1991; Minichilli, Zattoni & Zona, 2009). When corporate boards exercise greater accountability, honesty, integrity and ethical responsibility, the company can ensure the continued business partnership between the company and its stakeholders, as well as the company’s sustained creation of shareholder value (Ferrer & Banderlipe, 2012). Previous research has shown that using the board effectively as an internal corporate governance system is significant in enhancing firm performance and profitability (Bhagat & Black, 1999; Weisbach, 1988; Brickley, Coles & Terry, 1994; Johnson, Daliy & Ellstrand, 1996; Rosenstein & Wyatt, 1990; Zahra & Pearce, 1989).

Figure 3.3 OECD Principles of Corporate Governance



Source: OECD, 2004

3.7 Corporate Governance Mechanisms

The importance of corporate governance internationally has increased in the last decades since the financial crises, technological progress, liberalisation, opening up of financial markets, trade liberalisation and mobilisation of capital. Corporate governance is considered a mainstream concern in companies' boardrooms, among academics and legislators, and throughout businesses as an essential framework for firms (Claessens, Djankov & Lang, 2000). Corporate governance mechanisms are the procedures employed by companies to solve corporate governance problems; however, the use of these mechanisms depends on the corporate governance system (Weimer & Pape, 1999). Mechanisms for corporate governance can be divided into two parts: internal and external mechanisms (Fan, Lau & Wu, 2002).

External corporate governance mechanisms refer to the components by which actors are external to the direct administration or management of firm, while internal governance mechanisms refer to the structural components that serve to mitigate the principal–agent problem (Kiel & Nicholson, 2003; Weir, Laing & McKnight, 2002) The board of directors and the audit committee are considered internal governance mechanisms and thereby incorporate four variables: size of board; board composition, audit committee's independence and board leadership structure (Khanchel El Mehdi, 2007). These mechanisms are internal governance mechanisms because their usage is solely dependent on internal decision-makers (Agrawal & Knoeber, 1996). Consequently, the main objective of corporate governance mechanisms, in particular boards of directors, is to monitor management operations and processes (Gillan, 2006). Clearly, adopting better internal mechanisms of corporate governance, such as an enhanced board and audit committee, improves the monitoring of management and reduces information asymmetry problems (Aldamen et al., 2012).

Therefore, firms need internal mechanisms of corporate governance to mitigate the probability of having agency problems. The agency theory is assumed to afford a foundation of corporate governance through the use of internal corporate governance mechanisms. In addition, the agency theory could arrange the relationship between board characteristics and firm performance (Kyereboah-Coleman & Biekpe; 2006). Previous studies have found that corporate governance mechanisms affect firm performance (e.g., Thomsen, Pedersen & Kvist, 2006; Hu & Izumida, 2008; Kajola, 2008; Lupu & Nichitean, 2011).

3.7.1 Board size

The two most important functions of the board of directors are those of advising and monitoring (Raheja, 2005; Adams & Ferriera, 2007). Therefore, the board of directors has been considered a vital corporate governance mechanism for aligning the interests between managers and all stakeholders in a firm (Sanda, Garba & Mikailu, 2011). Zahra and Pearce (1989) classified two main roles of the board: it should control the operations of the firm and the activities of the CEO; and it should enhance the image of the firm and sustain a good relationship between the stakeholders and firm management to encourage the organisation culture. This shows that these board functions could develop the performance of a firm. Small board size was favoured to promote critical, genuine and intellectual deliberation and involvement among members, which presumably might lead to effective corporate decision-making, monitoring and improved performance (Lawal, 2012).

The Cadbury Committee (Cadbury, 1992) recommends an ideal board size of 8–10 members, with an equal number of executive and non-executive directors. Jensen (1993) argues that the optimum board size should be around 7–8 directors. Based on the Codes of Corporate Governance in the UAE, the board of directors consists of 3–12 members. Brown and Caylor (2004) also suggest that a board size of between six and 15 members is ideal to enhance firm performance. Lipton and Lorsch (1992) argue that board size should be small and limited: a board size of 8–9 directors is optimal for coordination and communication, because if the board has more than 10 members, it is not easy for directors in the board to indicate their opinions and ideas. However, Dalton and Dalton (2005) argue that the advantage of larger boards is the spread of expert advice and opinions around the table compared to a small board. Larger boards are expected to increase board diversity in relation to experience, skills, gender and nationality.

3.7.2 Leadership structure

The separation of the role of the CEO and the chairman is essential in alleviating issues of corporate governance practices in a firm (Brickley, Coles & Jarrell, 1997; Dalton et al., 1998; Dedman & Lin, 2002). The business of a firm is managed under the direction and supervision of a board of directors that delegates to the CEO and other management staff for the day-to-day management of the affairs of the firm (Yasser, Entebang & Mansor, 2011). An important function of the board of directors is to monitor the performance of the top management (Varshney, Kaul & Vasal, 2012). This means that the combined leadership will have more managerial discretion because its leader is also the leader of the board of directors. Therefore, the board will have less incentive to monitor the activities of the corporate managerial team, which will increase information asymmetry between the agent and its principles (Zhang, Li & Zhang, 2011).

Based on the agency theory, the CEO and chairman should be separate because the chairman cannot accomplish these functions without conflicts of personal interests (Jensen, 1993). Cadbury (1992) believes that the role of chairman should, in principle, be separate from that of the chief executive; if the two roles are combined, it represents a considerable concentration of power within the decision-making process. This view is supported by many other reports (e.g., Greenbury, 1995; Higgs, 2003). Based on the Codes of Corporate Governance in the UAE, the chairman of the board of directors and the company manager or CEO positions should be separate in the company. In addition, various corporate governance guidelines recommend that the role of the CEO be separated from the role of the chairman of the board of directors (e.g., Australian Corporate Governance Principles and Recommendations, 2007). In the UK, according to the Cadbury Committee (1992) and the Hampel Committee (1998), the main function of the board of directors is to reduce agency costs resulting from the separation of ownership and control (Fama & Jensen, 1983b).

3.7.3 Board composition

The board of directors plays an important role in corporate governance practices because it is responsible for planning and monitoring a company’s objectives (Bhagat & Bolton, 2008; Haniffa & Cooke, 2002). Thus, an effective board director with an appropriate composition of directors is important in order to help the board accomplish its aim and ensure the success of the company (Al-Matari et al., 2012). The composition of the board has a direct effect on the company’s activities (Klein, 1998). Generally, the composition of the board refers to the proportion of inside and outside directors serving on the board. Boards of directors include both executive and non-executive directors.

Executive directors refer to dependent directors, while non-executive directors refer to independent directors (Ali Shah, Butt & Hassan, 2009).

The Cadbury Report (1992) indicates that the presence of non-executives should be effective in enhancing board independence and firm performance. The Code of Best Practice recommended that the board of directors include non-executive directors of sufficient number and calibre in order to give non-executive directors an important influence on the board's decisions. In this regard, best practice recommendations on corporate governance require boards to be composed of a majority of non-executive directors (ASX Corporate Governance Council, 2003). In the UAE, the board of directors should consider an appropriate balance between executive and non-executive and independent board members, provided that at least one-third of members are independent members and that a majority of members are non-executive members (UAE Code of Corporate Governance, 2009).

Non-executive directors are outside directors who offer checks and balances to protect the interests of shareholders, and inside directors, who participate directly in the day-to-day management of the firm (O'Sullivan & Wong, 1998; Petrovic, 2008; Wan & Ong, 2005; Klien, 2002a). Fama and Jensen (1983b) argue that a higher proportion of independent non-executive directors increases board effectiveness in monitoring managerial opportunism and, consequently, increases voluntary disclosures. In a similar vein, Forker (1992) argues that the inclusion of non-executive directors on corporate boards enhances the quality of financial disclosure and reduces the benefits of withholding information. Hermalin and Weisbach (1998) and Pye (2001) identify the following major functions that non-executive directors should fulfil: preventing the undue exercise of power by executive directors, safeguarding shareholders' interests in board decision-making, contributing to strategic decision-making and ensuring competitive performance.

3.7.4 Audit committee independence

The separation of corporate ownership and control results in agency conflict problems that require the effective functioning of audit committees as governance mechanisms to solve. The audit committee is seen as an effective subcommittee of a board of directors, which is important in good corporate governance (Abbott, Park & Parker, 2000; Jensen & Meckling, 1976). Garcia-Meca and Sanchez-Ballesta (2009) argue that an independent audit committee could enhance the quality and credibility of financial reporting. Cohen and Hanno (2000) emphasise the significance of audit committee independence to appraise management actions regarding risk assessment. In addition, independent directors do not have personal or economic interests in the company in their role of overseeing and monitoring the company's executive management as professional referees (Munro & Buckby, 2008). Thus, independent directors are viewed as being better prepared for maintaining the integrity of external financial statements (Bradbury, 1990).

According to the Australian Corporate Governance Principles and Recommendations (2007), companies are required to have at least three members and consist only of non-executive directors and a majority of independent directors in the audit committee. The UK Corporate Governance Combined Code (FRC, 2003, p. 45) emphasises the audit committee's independence from managers:

> While all directors have a duty to act in the interests of the company, the audit committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control.

In the Codes of Corporate Governance in the UAE (2009), audit committees should include at least three non-executive board members, of whom at least two should be independent members, and they should be chaired by independent members.

An audit committee is considered a monitoring mechanism that establishes a proper communication relationship between the board of directors, the internal monitoring system and the internal and external auditors to improve the audit attestation function of external financial reporting and external auditor independence (Blue Ribbon Committee, 1999; Bradbury, 1990). Independent directors can support external auditors over executive management regarding external auditor–management conflict situations. The independent board may not be expected to reword their financial statements, where rewording is considered a failure to maintain the integrity of external financial statements (Abbott, Park & Parker, 2000; Beasley, 1996; Farber, 2005; DeZoort & Salterio, 2001).

3.8 Conclusion

The issue of corporate governance has attracted increased attention since the late twentieth century due to many corporate collapses and financial crises in the last decade. This has resulted in a growth in attention to corporate governance in both developed and developing countries. These collapses have highlighted the call for the management and directors of companies to be more accountable, and they have led governments and international organisations such as the OECD to be more active in establishing principles of corporate governance. The system of corporate governance has increased in different countries in relation to the nature of the economy, legal systems and cultural norms. Models of corporate governance can generally be classified either as an outsider or insider model.

This chapter focused on the concept of corporate governance based on shareholders' and stakeholder's perspectives and the development of corporate governance around the world, including the UK, US and Australia. The OECD Principles of Corporate Governance were presented, including: shareholders' rights, equitable treatment of shareholders, disclosure and stakeholders' rights and transparency practices, and the responsibilities of board directors. Corporate governance mechanisms were discussed in this chapter. The historical and evolutionary literature review of the emergence of corporate governance in the western world and the OECD Principles of Corporate Governance linked with corporate governance principles and mechanisms will be used to inform the empirical work in chapter 7, 8 and 9. It is important to review the studies conducted on corporate governance in developing countries, particularly MENA countries, as well as its effects on firm performance. The next chapter will evaluate the academic literature on corporate governance practice in affecting firm performance.

Chapter 4: Literature Review of Corporate Governance and Firm Performance

4.1 Introduction

This chapter reviews the practice of good corporate governance and the role of the OECD Principles of Corporate Governance in improving the corporate governance of MENA countries. It also analyses the literature related to the effect of corporate governance on firm performance in the MENA region. This chapter is structured as follows. Section 4.2 presents the benefits of good corporate governance practice, followed by the role of the OECD Principles of Corporate Governance in Section 4.3. Corporate governance practice in developing countries is reviewed in Section 4.4, followed by corporate governance practice in MENA countries in Section 4.5. Section 4.6 explains corporate governance and firm performance followed by limitation of existing literature and identifying gaps in Section 4.7, and Section 4.8 concludes.

4.2 Good Corporate Governance Practice

Corporate governance has become a considerable worldwide issue because of the failure of businesses such as Enron, World Com and HIH (Farrar, 2008; Du Plessis et al., 2011). In addition, Zheka (2006) stresses that because firms represent more than 90% of productivity worldwide and there has been rapid growth over the past decades, corporate governance is one of the essential, foundational ingredients for long-term economy and the stability of companies (Ibrahim, Rehman & Roof, 2010). Thus, corporate governance is a necessary element for a firm's performance and for the overall growth of a country's economy (Brav et al., 2008).

Therefore, different countries and markets have used the basic common guidelines of the OECD Principles to bring about good codes of corporate governance practice (Maher & Andersson, 2000; Gul & Tsui, 2004). Good governance means 'little expropriation of corporate resources by managers or controlling shareholders, which contributes to better allocation of resources and better performance' (Ali Shah, Butt & Hassan, 2009, p. 625). Further, good corporate governance plays a balancing role in terms of expediting the performance of firms in both developed and developing countries. However, as there are differences in the social and economic circumstances of developing and developed countries, the structure of corporate governance within each country might be diverse. This may lead to differences between the relationship of corporate governance and the value of firms in developed and developing financial markets (Rashid & Islam, 2008). A number of studies have examined the relationship between corporate governance and firm performance (e.g., Ehikioya, 2009; Bauer et al., 2008; Gurbuz, Aybars & Kutlu, 2010). The findings of this research emphasise the positive influence of good corporate governance on corporate performance.

The studies referred to above indicate that good corporate governance improves firm performance and enables access to outside capital, which leads to added sustainable economic development (Maher & Andersson, 2000). As a result, corporate performance should be measured in terms of the satisfaction level of all stakeholders of a firm. Clearly, corporate governance is accountable to a broad variety of stakeholders, including shareholders, managers, employees, customers, suppliers, labour unions, providers of finance, regulators and the community (Jhunjhunwala & Mishra, 2009).

In addition to improving firm performance, Brown, Beekes and Verhoeven (2011), Carcello, Hermanson and Ye (2011) and Stefanescu (2011) highlight that much research has investigated the issue and effect of corporate governance on accounting, finance and auditing. For instance, in accounting, Mensah et al. (2003), Halter, De Arruda and Halter (2009), Wu (2005) and Watson and Hirsch (2010) focus on the linkage between corporate governance and corruption, and all emphasise that poor corporate governance is a significant cause of corruption, and that transparency can be used as a method to reduce this corruption. Beasley et al. (2000), Fich and Shivdasani (2007) and Zhao and Chen (2008) find that a higher level of governance quality detects fraudulent financial reporting, while Hermalin and Weisbach (2007) and Price, Roman and Rountree (2011) claim that one of the main objectives of corporate governance is to increase transparency.

Habib and Azim (2008) and Byard and Weintrop (2006) point out that corporate governance that provides high-quality accounting information in the marketplace plays an essential role in ensuring credible financial reporting. Klai and Omri (2011), Dimitropoulos and Asteriou (2010), Bushman et al. (2004), Zhizhong et al. (2011), Bushman and Smith (2003), Beekes and Brown (2006), Yang and Kelton (2008), Baba

(2011) and Botti et al., (2014) investigate the effect of governance mechanisms on financial information quality, finding a positive strong relationship between firm structure and the financial reporting quality of firms. Tsamenyi, Enninful-Adu and Onumah (2007), Sanan and Yadav (2011), Mohamad and Sulong (2010), Myring and Shortridge (2010), Kent and Stewart (2008) and Baek, Johnson and Kim (2009) find that good corporate governance mechanisms extend the level of disclosure and affect the type of corporate disclosure.

Gibson and O'Donovan (2007) and Rao, Tilt and Lester (2012) state that strong corporate governance could result in an increase in environmental reporting. Admas and Zutshi (2004) document that good governance structure is related to social and environmental effects that tackle the concerns of key stakeholder groups for corporate decision-making. Said, Zainuddin and Haron (2009), Jamali, Saffieddine and Rabbath (2008), Welford (2007), Gill (2008), Huang (2010) and Haniffa and Cooke (2005) report that corporate governance is a foundation for social responsibility and that there is a significant relationship between corporate governance and social reporting. Bekirisa and Doukakisb (2011), Visvanathan (2008), Chen, Elder and Hsieh (2007), Shen and Chih (2007), Jiang, Lee and Anandarajan (2008), Davidsona Goodwin-Stewart and Kent (2005), Hutchinson, Percy and Erkurtoglu (2008) and Jiang and Anandarajan (2009) examine the association between corporate governance and earnings management, highlighting that high levels of corporate governance practices are important for reduced earnings management.

Defond and Hung (2004), Klapper and Love (2004), La Porta et al. (2000), Stulz (1999), Doidge, Andrew Karolyi and Stulz (2007) and Chen, Chen and Wei (2009) find that the effects of corporate governance practice on legal investor protection and good corporate governance are associated with strong investor protection. Ammann, Oesch and Schmid (2011), Al-Khouri (2006), Henry (2008), Sulong and Nor (2010), Chhaochharia and Grinstein (2007), Balasubramanian, Black and Khanna (2010), Garay and Gonzalez (2008), Lee and Chen (2011) and Chong, Guillen and Lopez-De-Silanes (2009) provide strong evidence of a significant relationship between firm-level corporate governance structure and higher firm valuation, and that practicing better corporate governance results in higher valuations in emerging markets.

Li (2010), Ramly and Rashid (2010), Zhu (2009), Byun, Kwak and Hwang (2008), Ashbaugh, Collins and LaFond (2004), Guangming, Menghua and Xun (2011) and Reverte (2009) investigate the relationship between corporate governance and cost of equity capital, finding that firms with stronger governance reduce the cost of equity capital through a reduction in agency problems and information asymmetry. Bauwhede and Willekens (2008), Cormier et al. (2010) and Cai, Qian and Liu (2009) find that good corporate governance leads to a lower level of information asymmetry, thereby improving investor confidence in the reported accounting information.

In auditing, corporate governance mechanisms assist internal control to develop efficiency and prevent fraud, and they enhance the quality of internal audits and increase their independence. This then reduces the expectation gap between the audit and the user (Goodwin & Seow, 2002; Krishnan, 2005; Lennox & Park, 2007). Ebaid (2011) finds that strong corporate governance enhances the quality of the financial reporting process and therefore affects auditors' decisions. In addition, Mitra, Hossain and Deis (2007), O'Sullivan (2000) and Salleh, Stewart and Manson (2006) examine the relationship between good corporate governance mechanisms and the quality of auditing, highlighting that corporate governance has a positive influence on the quality of auditing. Lennox and Park (2007) find that more independent audit committees appear to promote auditor independence because they are less likely to select an audit firm where key company officers are the alumni of that firm. Asare, Davidson and Gramling (2008) report that the quality of audit committees influences internal auditors' fraud risk assessments.

4.3 Role of OECD in Improving Corporate Governance in the MENA Region

While the issue of corporate governance is still in the initial stage in the MENA region, there has been more of a spotlight on the matter in recent years. For instance, corporate governance still lags behind in particular aspects relating to the establishment of appropriate frameworks when compared with developed countries (Aintablian & Boustany, 2008). Nevertheless, all MENA countries have begun a number of restructuring and reform initiatives to establish a legislative and infrastructure foundation in response to the urgent need to establish policy reforms, particularly those outlined by the OECD: that all MENA corporate governance codes utilise its 2004 Principles as benchmarks (Naciri, 2008).

The OECD has conducted research and established taskforces on corporate governance in the MENA region because it supports the development of corporate governance codes in this region based on its Principles of Corporate Governance. For instance, in 2005, the OECD set up a Working Group on Improving Corporate Governance in the MENA within the framework of the MENA–OECD program on Governance and Investment for improvement; this was the first wave of corporate governance in this region. The Working Group included representatives from the 18 participating MENA jurisdictions related to stock exchanges, the private sector, relevant government ministries and capital market regulators (OECD, 2005).

The 2006 stock market crash particularly affected the MENA region; to protect the region's capital markets from uncertainty, regulators within the Gulf Corporation Council (GCC) countries shed light on the benefits of imposing a governance system. Thereafter, corporate governance codes were generally introduced into the MENA region's regulatory and legal frameworks as voluntary guidelines based on the OECD Principles of Corporate Governance for best international standards. It was also decided that countries should focus on policy areas and reform in the following important areas:

- establish a framework of rules governing private- and state-owned enterprises that compete directly with each other
- ensure that minority shareholders are adequately protected
- strengthen the regulatory framework for business activities conducted in the MENA region
- state-owned companies should be as transparent as possible
- strengthen the power and influence of the board of directors of state-owned companies
- reinforce state ownership function.

The MENA–OECD Task Force was launched in 2007 by the OECD and included representatives of public and private sectors from across the region. The Task Force aimed to improve the corporate governance of banks in the MENA region by providing policy recommendations to policymakers, banking supervisors, banking associations and individual banks in the region. These policy recommendations were offered with consideration of the OECD Principles of Corporate Governance (revised 2004) and the OECD Guidelines on Corporate Governance of State-Owned Enterprises (issued 2005). Thus, this policy brief was designed to act as a foundation for current dialogue on the policy design, implementation, enforcement and evaluation of future development towards good corporate governance among MENA banks (OECD, 2009).

In 2010, the MENA–OECD Investment Programme lunched the MENA–OECD Capital Markets Task Force at the Roundtable on Effective and Efficient Financial Regulation in the MENA Region. The representatives at this Roundtable were from financial markets, regulatory and supervisory institutions in MENA and OECD economies, as well as from international financial institutions and experts. The Task Force made the following recommendations to the MENA region:

- the finalisation and publication of the benchmark study of MENA regulatory and supervisory frameworks related to the OECD Policy Framework for Effective and Efficient Financial Regulation
- the development of a flagship publication on capital markets in the MENA region to be published regularly (e.g., every two years)
- using the MENA–OECD Capital Markets Task Force as an instrument to increase the voice of MENA economies in financial standard-setting bodies
- the development of the network and constituency of the Task Force with the support of the Arab Monetary Fund
- the drafting of regular newsletters on important developments regarding the regulation and supervision of financial markets in MENA and OECD economies
- increasing the access of MENA economies to the OECD's expertise and publications in the area of the regulation and supervision of financial markets (OECD, 2010).

In 2010, the OECD set up the second wave of corporate governance, which started in the MENA region in response to the improvements that had been made during the preceding decade. For instance, evidence shows that 14 of the 17 MENA countries and territories surveyed have already implemented a corporate governance code or guidelines (see Table 4.1). Consequently, the new wave of corporate governance has commenced and is apparent through both a review of governance codes and the intention to explain and tighten provisions. In addition, the second wave will establish whether this will be an influential wave in terms of the ability of regulators to combat related-party transactions, improve transparency and disclosure, and foster effective boards. Further, the regulators’ ability to revise the governance arrangements of listed companies will assist in avoiding potential scandals, thus attracting further foreign interest in MENA markets (Koldertsova, 2011). Table 4.1 shows corporate governance codes in the MENA region.

Table 4.1 Corporate Governance Codes in the MENA Region

Country	**General corporate governance code**	**Date of issuance**	**Compliance required**
Algeria	Yes	2009	No
Bahrain	Yes	2010	No
UAE	Yes	2007	Yes
Egypt	Yes	2005	No
Jordan	Yes	2008	Yes
Kuwait	No	–	–
Lebanon	Yes	2008	No
Morocco	Yes	2008	No
Tunisia	Yes	2008	No
Saudi Arabia	Yes	2006	Yes
Oman	Yes	2002	Yes
Qatar	Yes	2009	Yes
Syria	Yes	2008	No
Yemen	Yes	2010	No
Palestinian National Authority	Yes	2009	No
Libya	No	–	–
Iraq	No	–	–

Source: Koldertsova (2011)

In 2011, the OECD conducted a survey on corporate governance in MENA countries. The result confirms that there is a lack of corporate governance research in the MENA region. The survey found that research is essential to progressing the understanding of policymakers and the private sector regarding the main implementation gaps and possible measures to link them, and the perspective of MENA countries has been enhancing quickly regarding the benefits of good corporate governance. Further, the findings showed some reform priorities, including the need for explicit board member duties, particularly in terms of shareholder protection; the limited ability of directors to obtain timely, relevant and accurate information; and the lack of guidelines or provisions addressing the skills of board members (OECD, 2011b).

The OECD set up a Task Force of people from the MENA stock exchanges to promote corporate governance in 2011. One meeting included representatives of all regional exchanges alongside regulators, representatives of OECD country exchanges and other relevant experts, the World Federation of Stock Exchanges, the Union of Arab Stock Exchanges and the Federation of Euro–Asian Exchanges. The meeting focused on the following topics in the MENA region: the ownership and governance of stock exchanges, the regulatory powers of exchanges, the role of exchanges in promoting listing standards, the enforcement of corporate governance codes by stock exchanges, the role of exchanges in monitoring market participants, and the role of stock exchanges in encouraging listings and cross-listings (OECD, 2011c).

The OECD conducted a study to investigate the role of MENA Stock Exchanges in Corporate Governance (OECD, 2011c). The paper was developed based on secondary research, preliminary discussions with industry participants and responses to the OECD questionnaire disseminated to all Arab stock exchanges. The research attempted to provide a background to the key features of MENA markets, including these criteria: state or mutual ownership, limited consolidation, low regional and international integration, developing markets with diverse composition, low institutional investment and growing interest in index-based products. The first meeting of the Task Force received an outline of recent developments affecting stock exchanges in the region, which highlighted relevant examples of exchanges' contributions to the better governance of listed companies and considered some challenges for exchanges and securities regulators in this regard (OECD, 2011c). MENA markets have undertaken a number of reforms and have restructured legislation and infrastructure in the past decade (Singh & Singh, 2010).

The OECD set up the working group in 2011 to examine the transparent investment policies of the MENA–OECD initiative on governance and investment and to develop an investment program because these countries suffer from corruption, bribery and the need for transparency in business, which lead to a rise in risks in trade and investment in the region (OECD, 2011). As a result, this working group formed a Task Force on Business Integrity and Combating Bribery of Public Officials, which included senior anti-corruption government representatives from all MENA states, as well as senior representatives of the MENA business sector and civil society. This Task Force aimed to:

- assist MENA to improve its investment policy, maximise the benefits of investment, strengthen the capacity of policymakers and attract investment in the MENA region
- present a comprehensive overview of the anti-bribery framework to provide a better understanding to MENA governments about the key challenges, and to allow these countries to share experiences on investment
- examine policies among policymakers from MENA countries and provide measures that can be used to improve the efforts of anti-bribery
- develop an environment for investment by enhancing transparency and accountability in the private sector, improve the effectiveness of bribery sanctions of public officials in business transactions, and sustain economic growth throughout the MENA region (OECD, 2011a).

In 2013, the Task Force on Corporate Governance of State-Owned Enterprises in the MENA set up a meeting, and 18 countries from the MENA region participated in the work of this Task Force with the OECD. This meeting resulted from an increasing need to enhance the efficiency and corporate governance arrangements of regional state-owned enterprises (SOEs). The Task Force includes representatives of holding companies, state audit institutions, relevant ministries, regulatory authorities, individual SOEs and academics. The aims of the Task Force are to:

- increase awareness of all concerned constituencies regarding the importance of the good governance of SOEs
- discuss and evaluate SOE corporate governance policy frameworks and practices, and compare them against the international good practice outlined in the OECD Guidelines on Corporate Governance of SOEs
- provide a forum where policymakers can share experience among themselves and with their OECD colleagues
- support effective reforms in SOE governance by discussing and analysing policy options, developing relevant recommendations and agreeing on priorities for reforms (OECD, 2013).

4.4 Corporate Governance Practice in Developing Countries and Emerging Economies

Corporate governance is significant in enhancing market economies and civil societies in developing countries (McCarthy & Puffer, 2002). Thus, research into corporate governance has been given attention in various developing countries. For instance, Solomon et al. (2003) provide evidence of the attitudes of Taiwanese company directors towards the role and function of the board of directors in Taiwanese corporate governance, finding that corporate governance reform has been spotlighted by Taiwanese company directors. Bhuiyan and Biswas (2007) evaluate the actual corporate governance practices of 155 listed public limited companies in Bangladesh. Cheung et al. (2010) assess the corporate governance practices of 100 of the largest Chinese listed companies from 2004 to 2006, concluding that Chinese companies have been developing corporate governance reform. Abu-Tapanjeh (2009) analyses the OECD Principles of Corporate Governance from an Islamic perspective.

Several studies investigate the level of compliance by companies in developing countries with a national code of corporate governance and international principles. For example, Campell, Jerzemowska and Najman (2009) investigate the reasons for non-compliance by Polish listed companies with aspects of the Polish code of corporate governance Best Practices in 250 Public Companies on the Warsaw Stock Exchange in 2005. Olayiwola (2010) analyses the practice and standard of corporate governance in Nigeria using the banking industry as a case study. Krambia-Kapardis and Psaros (2006) investigate the levels of compliance with the Code by companies listed on the Cyprus Stock Exchange, specifically compliance with the Code, including the corporate governance report in the annual reports, and then analyse and compare the Code in 46 companies. These research studies provide evidence that there is a gap between the code of corporate governance and its compliance, and weak or non-existent enforcement. In addition, the majority did not comply with all major elements of the Code, and corporate governance is at an early stage in developing countries.

Some studies examine the level of corporate governance disclosure in companies. Tsamenyi, Enninful-Adu and Onumah (2007) utilise disclosure scores to study the corporate governance practices of Ghanaian listed firms, as well as the extent to which factors such as ownership structure, dispersion of shareholding, firm size and leverage influence disclosure practices from 22 listed companies on the Ghana Stock Exchange. Pahuja and Bhatia (2010) investigate the determinants of corporate governance disclosure practices in the annual reporting of 50 Indian listed companies. Betah (2013) examines the level of corporate disclosure and transparency using the 2007–2008 annual reports of listed companies in Zimbabwe.

Some studies analyse the state of the implementation of regulatory systems. Siddiqui (2010) investigates the development of corporate governance regulations in emerging economies using the case of Bangladesh to analyse the corporate environment and corporate governance. The study finds an absence of regulation by the professional bodies in the development of corporate governance regulations in Bangladesh. Yang, Chi and Young (2011) find that Chinese regulatory bodies have made a significant effort to enhance the corporate governance of listed firms. However, the governance mechanisms in China are still less effective compared with developed countries. Manolescu, Roman and Mocanu (2011) evaluate the implementation of the current relevant regulations of corporate governance in Romania, finding a lack of awareness concerning the importance, functions and objectives of managerial control, and that internal control is not understood and implemented. Abhayawansa and Johnson (2007) highlight that ineffective regulation is one of the issues facing the implementation of corporate governance practice in Sri Lankan and Indian firms.

The review of empirical studies in different developing countries shows strong evidence that corporate governance is still weak and that more efforts are needed to tackle these challenges. For instance, Black, De Carvalho and Gorga (2010) study the corporate governance practices of Brazilian public companies to identify strong and weak areas related to their governance. They find that boards of directors are a weakness and that many firms have small boards with either no independent directors or one token independent director. Black, De Carvalho and Gorga also find that audit committees are uncommon and that financial disclosure lags behind world standards. Le Minh and Walke (2008) examine the corporate governance of Vietnamese listed companies and find that they need to improve their corporate governance. They also find that the framework for corporate governance in Vietnam is in its early period of development and requires reform. Caliskan and Icke (2010) analyse a general picture of corporate governance in 29 ISE listed non-financial service sector firms in Turkey. They report that there are still some challenges facing Turkish companies and that these companies should thus enhance their corporate governance to enable them to be more competitive in Turkey as well as internationally.

From the review of the above literature, it can be noted that developing countries attempt to ensure market transparency, investor protection and effective management in order to ensure better development of the securities market. Therefore, developing countries have been paying increasing attention to the corporate governance system and trying to investigate corporate governance practice. As mentioned earlier, the research has focused on: level of compliance with a national code of corporate governance by companies; implementation of regulatory systems in developing countries; and examining the level of corporate governance disclosure in companies in developing countries. In addition, as discussed above, previous research has provided a clear understanding that corporate governance practice is still weak in developing countries.

4.4.1 Corporate governance practice in the MENA region

Hussain and Mallin (2002) examine the existing state of corporate governance in countries in the Middle East, and Bahrain in particular. They conclude that while corporate governance in Bahrain still needs improvement, companies have key corporate governance structural aspects. Bremer and Elias (2007) analyse the challenges and assess the development of corporate governance in Egypt from both historical and empirical perspectives. Their paper also reviews the improvement of stock markets and accounting and financial reporting standards, and it investigates the structure of capital markets. Leigh (2011) analyses the history of poor corporate transparency in the MENA region, finding that a lack of corporate information disclosure is a major barrier to the smooth functioning of emerging market economies in the MENA region.

Saidi (2004) explores the role of corporate governance in the MENA region in improving the transparency and disclosure practices, finding that:

- the values of corporate governance (transparency, accountability and responsibility) provide the key to the modernisation of the countries in the region
- the private sector business community can play a leading role in economic, political and social reforms

- national institutions, laws, regulations and practices based on international norms and standards would enable the countries in the region to modernise their corporate sector, attract technology and foreign investment and become globally competitive
- the process of designing and implementing the basics of corporate governance transparency and regular reporting, as well as improved ethics, independent auditing, removal of conflicts of interest and the protection of minority shareholders' rights, provides a foundation for meaningful reform in the economic sector and in society.

The International Finance Corporation conducted a survey of corporate governance in the MENA region between 2006 and 2007 and found that less than 37% of companies had a code of corporate governance or a code of ethics, and the participants were not qualified in corporate governance. The majority (92%) of the companies used enhanced governance practices, whereas only 3% or 5% of respondents followed good practice. In addition, boards with a majority of independent directors on their audit committees comprised only 26.4%. Further, two-thirds of board members used inside information to promote issues, and around half of the participants misunderstood the definition of corporate governance (IFC & Hawkamah, 2008).

Several studies investigate the positive effect of corporate governance practices in MENA countries. For instance, Al-Shammari and Al-Sultan's (2010) research examines the relationship between corporate governance characteristics and voluntary disclosure by using the annual reports of 170 Kuwaiti companies listed on the Kuwait Stock Exchange in 2007. They find that focusing on corporate governance characteristics led to enhancing the transparency needs of the Kuwaiti market. Al-Moataz and Hussainey (2012) evaluate the effect of some corporate governance mechanisms on financing decisions in 37 Saudi Arabian listed companies to improve understanding regarding the key drivers of corporate governance reporting in developing countries. The findings show evidence that board independence, audit committee size, profitability, liquidity and gearing are the main determinants of corporate governance disclosure in Saudi Arabia.

There is little evidence to show that MENA countries have implemented corporate governance based on international corporate governance standards, policies and principles. Harabi (2007) examines the state of corporate governance as a major factor affecting the growth performance of the private sector in MENA countries, especially Egypt, Jordan and Morocco. One finding shows that the practice of corporate governance in these countries is not consistent with the OECD Principles of Corporate Governance, while the legal and regulatory frameworks of the assessed Arab countries are basically compliant with these Principles. Elsayed (2007) evaluates Egypt's corporate governance rules, laws and standards in accordance with the five OECD Principles (1999) and also reviews a variety of features of the capital market, including the structure of the stock market, legal and supervisory framework, registration requirements, and ownership structure. Shanikat and Abbadi (2011) investigate corporate governance in Jordan in terms of protecting shareholders' rights, corporate board composition and key functions, reality of disclosure, and transparency of the information.

In the UAE, the International Monetary Fund (IMF, 2007) report finds that implementing corporate governance practice is weak. Hassan (2011) investigates the differences between corporate governance in the financial and non-financial sectors. The study investigates the following terms using the annual reports of 95 corporations listed in either the DFM or the ADX 2008: ownership, structure/investors' rights, board and management structure/processes, audit services and transparency. Hussainey and Aljifri (2012) explore the association between corporate governance mechanisms and corporate capital structure in a sample of 71 firms listed either in the DFM or the ADX during 2006 in the UAE. The authors suggest that policymakers need to be concerned and to ensure that firms implement effective corporate governance mechanisms in the UAE. Aljifri and Moustafa (2007) report that corporate governance codes in the UAE should be improved and should be appropriate for the UAE business environment. They recommend that international corporate governance standards such as the OECD Principles of Corporate Governance be implemented.

Al-Tamimi and Charif (2012) examine the UAE national banks' practices of corporate governance concerning the role of the board of directors in the formulation and implementation of bank policies and strategies. Their results confirm that there is still a need for improvement in corporate governance practices, and they recommend paying more attention by organising training programs for the improvement of corporate governance culture. Mubarak (2012) investigates the extent to which the corporate governance code is followed by companies listed on the Egyptian Securities Exchange and by the Securities Exchange in the UAE in 2010. The results show that all UAE companies included in the study provide an account of their corporate governance in a separate report. The author highlights that fewer studies have been undertaken on the practice of corporate governance in the Middle East and that there is a lack of research that focuses on the issuance of codes, enforcement and affects of codes on practice in these countries.

In terms of earlier literature related to corporate governance practice in different MENA countries, especially in the UAE, it can be concluded that, similar to other developing countries, MENA countries are concerned about corporate governance to enhance their economy and improve management practice. However, compared to Western countries, little research has been carried out to date in the area of corporate governance in MENA countries. Previous research has investigated the level of corporate governance practice, corporate governance mechanisms and voluntary disclosure, and corporate governance rules, laws and standards in accordance. An overview of the established literature in MENA countries indicates that there is a dearth of research examining whether the stakeholder theory is appropriate in MENA countries. Despite the importance of corporate governance in these countries, no studies have been conducted to develop a proper model of corporate governance practice based on the OECD Principles in the UAE and MENA countries, in general, concerning the issue of corporate governance.

The current study is therefore motivated by the dearth of literature on developing models of corporate governance practices based on the OECD Principles in the developing world, particularly the MENA region, despite increasing interest in the topic in developing countries. As explained in Chapter 1, this gap has particularly motivated this study to investigate the current status from a UAE perspective. It can be concluded from the above discussion that the MENA region has been paying increasing attention to the corporate governance system and trying to implement principles of good corporate governance. As a result, the aim of the present study is to develop a corporate governance framework for a specific country (the UAE) in order to identify the extent of corporate governance practices.

4.5 Barriers and Enablers Affecting the Implementation of Good Corporate Governance

Many problems have affected corporate governance practice in developing countries, including weak law enforcement, abuse of shareholders' rights, lack of responsibilities of the boards of directors, weakness of the regulatory framework, lack of enforcement and monitoring systems, and lack of transparency and disclosure (Okpara, 2011). Wanyama, Burton and Helliar (2009) investigate the effects of several factors on corporate governance, including: political, legal, regulatory and enforcement frameworks; social and cultural factors; economic environment; accounting and auditing framework; corruption and business ethics; and governmental and political climates. Further, Kaur and Mishra (2010) examine the reasons for the failure of corporate governance, including a lack of incentives, poor external monitoring systems, weak internal control and ineffective top leadership.

According to Ali, Qader Vazifeh and Moosa Zamanzadeh (2011), who investigate relationships between the Iranian culture and the degree of implementation of the principles of corporate governance in Iran, the traditional culture is one of the obstacles to the improvement of corporate governance in Iran. Likewise, Rafiee and Sarabdeen (2012) report that the national culture is one of the barriers hindering the effective implementation of corporate governance in emerging markets. Further, Baydoun et al. (2013) study corporate governance in five developing countries and find that the cultural and religious characteristics of societies affect honesty and trust, which are the key elements of an effective governance framework. They also state that the cultural and religious characteristics of societies should be considered in Arab countries, all of which are Islamic.

McCarthy and Puffer (2002) indicate that there are some factors related to corporate governance practice, namely: legal and political influences, social and cultural influences, economic influences, technological influences, and environmental factors. In their study on corporate governance practices among Asian companies, Cheung et al. (2011) note that the management view is that the costs associated with good corporate governance practice outweigh the benefits. Dahawy (2007) analyses an overview of the improvement of the level of corporate governance disclosure based on information from 30 companies listed on the Cairo Alexandria Stock Exchange. The paper finds that the disclosure level is as low as in other developing countries due to a lack of education concerning the needs and benefits of corporate governance.

Adekoya (2011) investigates the challenges to corporate governance reforms with the 2003 SEC’s code of best practices to Nigeria’s 2006 Code of Corporate Governance. The study finds that governance is challenging in Nigeria because of a weak regulatory framework, high poverty, unemployment, collapse of moral values, low standard of education and institutionalised corruption. Mallin (2011) reports that the MENA region is still lagging behind in terms of the quality of education, and that corporate governance is less clearly understood in these countries compared to Western countries. Nganga, Jain and Artivor (2003) conduct a survey on the state of corporate governance practices in Africa, finding that many developing countries have a code of governance based on the OECD Principles of Corporate Governance, the foundation of institutes of directors and international accounting standards, but that the enforcement of laws lacked efficiency. The authors recommend that education must be increased and improved because the benefits of good corporate governance for developing countries are extensive.

Clearly, less developed countries have to adopt more effective corporate governance to solve these problems and enhance new practices to tackle the different features of corporate governance that exist in their developing economies (Mulili & Wong, 2011). Consequently, Saidi (2004) emphasises that the following enablers should be adopted in developing countries to improve corporate governance: reduce the cost of the implementation of corporate governance through training and other means of support; develop incentive programs for compliance companies with principles of corporate governance; learn from the experiences of other developing countries relating to corporate governance practice; develop a capital market in the country; participate in international events, conferences, meetings and committees dealing with corporate governance; conduct research relating to corporate governance; and initiate regional corporate governance partnership programs with international organisations.

Aljifria and Khasharmeh (2006) recommend adopting the International Accounting Standards to develop accounting practices and the profession and improve the quality of financial reporting. In addition, the authors suggest creating an effective accounting education system to update regulations and policies surrounding the accounting systems and to establish accounting development centres. Ayandele and Emmanuel (2013) suggest that the practice of good corporate governance in developing countries be based on learning from the experiences of other countries. The OECD examines the role of stock exchanges in promoting good corporate governance outcomes in 2009, finding that the development of stock exchanges plays an important role in establishing effective corporate governance frameworks among listed companies (OECD, 2012).

According to Harabi (2007), possible ways to enhance corporate governance include the establishment of institutes of directors for training, the dissemination of best practices and the issuance of guidelines about the size of the board, the constitution of committees, and other useful practices. In line with these suggestions, institutes of directors have been created in different countries, such as the Hawkamah Institute for Corporate Governance. Olayiwola (2010) suggests that raising awareness of, and commitment to, the value of good corporate governance practices among stakeholders, as well as a functional and responsible board of directors, the active role of internal and external auditors, and adequate and comprehensive information disclosure and transparency, could enhance the implementation of corporate governance.

4.6 Corporate Governance and Firm Performance

Investigating the benefits of corporate governance has been given significant attention over the past decade (Cheung et al., 2008; Ertugrul & Hegde, 2009). Hence, many studies now shed light on the relationship between corporate governance and firm performance in developed countries (Bhagat & Black, 2001; Bauer et al., 2008; Lehn, Patro & Zhao, 2007; Schmidt, 2003; Brown & Caylor, 2004; Black et al., 2006). However, less research has been conducted on the relationship between corporate governance and firm performance in developing countries (e.g., Kajola, 2008; Haat, Rahman & Mahenthiran, 2008; Lamport Seetanahah & Sannassee, 2011).

In addition, empirical studies have mainly focused on specific dimensions or attributes of corporate governance, including: board size (Yasser, Entebang & Mansor, 2011; Anderson, Mansi & Reeb, 2004; Brown & Caylor, 2004; Yermack, 1996), board composition (Javid & Iqbal, 2008; Chung, Wright & Kedia, 2003; Hutchinson & Gul, 2003; Coles, McWilliams & Sen, 2001; Weir, Laing & McKnight, 2002; Hermalin & Weisbach, 2003; Bhagat & Black, 2002), audit committees (Klein, 2002a,b; Anderson, Mansi & Reeb, 2004; Ho, 2005; Brown & Caylor, 2004; Abbott, Park & Parker, 2000) and leadership structure (Heenetigala & Armstrong, 2011; Coles, McWilliams & Sen, 2001; Weir, Laing & McKnight, 2002; Weir & Laing, 2000; Brickley, Coles & Jarrell, 1997).

In reviewing previous research that has investigated one aspect or feature of corporate governance, Ho (2005) asserts that the appraisal of corporate governance based on one element or feature may not explain the same overall corporate governance effect on firm performance. In addition, some scholars have argued that the investigation of a special or particular attribute of corporate governance might not reflect the influence of governance, and they have tried to evaluate the overall relationship between corporate governance and firm performance (Ødegaard & Bøhren, 2003; Bauer et al., 2008). This view is supported by Cheung, Evans and Nagarajan (2008, p. 461), whose research reveals that while the findings of previous studies are still inconclusive, much has been learned from them: ‘One potential explanation is that these corporate governance attributes are working simultaneously. In some cases, they may substitute for each other, while in other cases they may be complementary’.

Given this, some researchers have tried to test the relationship between the overall corporate governance elements as one index and firm performance since the last decade. For instance, Black’s (2001) study constructs a CGI as a proxy for the quality of corporate governance in Russian companies and finds a positive relationship between corporate governance behaviour and market valuation firms among a small sample of 21 Russian firms. Klapper and Love (2004) use the Credit Lyonnais Securities Asia governance index to evaluate the differences in the governance practices of 14 companies in emerging markets. They reveal that there is a positive correlation between market value and ROA, and that the corporate governance in countries is related to efficient legal systems. Gompers, Ishii and Metrick (2003) investigate the relationship between corporate governance and performance by using 24 different provisions as an index of governance among 1,500 firms. The authors report that governance has a positive effect on stock returns.

Brown and Caylor (2004) study 51 factors in eight categories: audit, board of directors, charter/bylaws, director education, executive and director compensation, ownership, progressive practices, and state of incorporation, based on a dataset of the Institutional

Shareholder Service for 2,327 US firms. The results indicate that better-governed firms are relatively more profitable, more valuable and pay more cash to their shareholders. De Toledo (2007) constructs a governance index for a sample of 97 Spanish non-financial public companies to test corporate governance with performance. The results show a significant relationship between governance and performance. Further, the author concludes that Spanish firms could reduce the low level of investor protection holdings in the country by implementing better standards of governance.

Carvalhal-da-Silva and Leal (2005) used a broad CGI for Brazilian listed companies divided into four categories: disclosure, board composition, ownership structure and shareholder rights, with firms with good corporate governance having a higher valuation (Tobin's Q) and higher performance (ROA). Black, Jang and Kim (2006) create a CGI for 515 Korean companies listed on the Korea Stock Exchange. The authors offer evidence that is consistent with the relationship between an overall governance index and higher share prices in emerging markets. The study finds that corporate governance is a vital aspect for predicting the market value of South Korean firms.

Bauer et al. (2008) examine the relationship between corporate governance and corporate performance by using six different categories as ratings for 225 companies in Japan in June 2003 and January 2004, and 356 companies in 2004. They find that governance provisions that deal with financial disclosure, shareholder rights and remuneration affect stock price performance. Lamport, Seetanah and Sannassee (2011) examine the relationship between the quality of corporate governance and firm performance among a sample of top 100 Mauritian companies. The authors utilise an index of governance, including 17 factors from the literature and the Code of Corporate Governance that is applicable to Mauritius. Analysis from the results shows that there is no overall difference in the performance of companies that have poor and excellent quality of governance.

4.6.1 Board size and firm performance

Kiel and Nicholson (2003) investigate the relationships between board structure and corporate performance in 348 of Australia's largest publicly listed companies. They find a positive relationship between board size and firm performance for large firms. Adams and Mehran (2005) find a positive relationship between board size and performance in the US banking industry. Latif et al. (2013) examine the effect of corporate governance mechanisms, such as board size, on firm performance from 2005 to 2010 in Pakistan, and they also find a significant positive relationship between firm performance and board size. These results support Zahra and Pearce's (1989) conclusion that there is a relationship between board size and firm performance.

However, Aljifri and Moustafa (2007) study the effect of some internal and external corporate governance mechanisms on firm performance (Tobin's Q) in a sample of 51 firms in 2004. The research indicates that board size has a non-significant effect on performance. Chaghadari (2011) examines the importance of one corporate governance aspect—namely, board size of companies listed on Bursa Malaysia—and applies linear multiple regression as the underlying statistical test. The author does not find a significant relationship between board size and firm performance in a sample of selected listed companies in Malaysia. This result is supported by Kajola (2008), who studies the association between the corporate governance mechanisms and firm performance of a sample of 20 Nigerian listed firms between 2000 and 2006. He does not find a significant relationship between the board size and firm performance of the listed companies in the Nigerian Stock Exchange. This supports other research, which finds that a large board size can lead to the free-rider problem (Yermack, 1996; Eisenberg, Sundgren & Wells, 1998; Conyon & Peck, 1998; Loderer & Peyer, 2002).

4.6.2 Leadership structure and firm performance

Several studies examine the relationship between CEO duality and firm performance, but the results lack consistency. For instance, Jackling and Johl (2009) investigate the relationship between internal governance structures and the financial performance of Indian companies. They find that the combined position of CEO and chairman has a negative effect on firm performance. Previous research findings are also supported by Ujunwa (2012), who finds that the duality of the CEO and the chairman is negatively linked with the firms' financial performance in Nigeria. In addition, the result of these studies (see Rahman & Haniffa 2005; Abdullah 2004; Elsayed 2007; Mashayekhi & Bazaz 2008; Rashid et al. 2010; Coskan & Syiliar 2012; Chaghadari, 2011) were in line with prior research on the relationship between firm performance and a separate leadership structure.

Rechner and Dalton (1991) conduct a study on a sample of Fortune 500 companies, finding that the CEO duality has a strong effect on a firm's financial performance because it paces up the decision-making process and removes unnecessary bureaucracy, hence leading to stronger financial performance. Kiel and Nicholson (2003) report a significant positive relationship between a combined leadership structure and Tobin's Q, finding that having a separate leadership structure has no effect on market value. Haniffa and Hudaib (2006) study the relationship between the corporate governance structure and performance of 347 companies listed on the Kuala Lumpur Stock Exchange between 1996 and 2000, finding that a separate leadership structure is not significantly related to firm value measured by Tobin's Q. Chen, Lin and Yi's (2008) empirical results do not show a significant relationship between CEO duality and firm performance.

4.6.3 Board composition and firm performance

Khan and Awan (2012) find a positive relationship between non-executive directors and firm performance measured by ROA and ROE using a sample of 91 listed firms in the Karachi Stock Exchange. Heenetigala and Armstrong (2011) examine the relationship between board structure and firm performance of a sample of 37 companies selected from the top 50 listed companies in the Lanka Monthly Digest 50 for the years 2003 and 2007. They make similar findings in relation to non-executive director representation on the board and Tobin's Q from the viewpoint of the stock markets. Rashid et al. (2010) examine the relationship between independent board composition and firm performance of Bangladeshi firms and discover that independent board directors add value to firm performance. Likewise, Mashayekhi and Bazaz (2008), Ehikioya (2009) and Uadiale (2010) find a significant positive correlation between board independence and firm performance.

In contrast, Kajola (2008) does not find a significant relationship between board composition and firm performance for a sample of 20 non-financial listed firms in Nigeria. Kiel and Nicholson (2003) find a negative relationship between board composition and firm performance for a sample of 348 Australian firms. This negative relationship is confirmed by Yusoff and Alhaji (2012), who examine the relationship between corporate governance and firm performance for a sample of 813 listed companies of Bursa Malaysia from 2009 to 2011. Kumar and Singh (2012) investigate the efficacy of outside directors on the corporate boards of 157 non-financial Indian companies in 2008, finding that the independent director's proportion has an insignificant positive effect on firm value.

4.6.4 Audit committee independence and firm performance

An audit committee is an important corporate governance mechanism in firms to protect the interests of shareholders and oversee financial reporting (Mallin, 2007). Chan and Li (2008) find a significant positive relationship between Tobin's Q and audit committee independence. Hamdan, Sarea and Reyad (2013) examine the relationship between audit committee independence and firm performance of 106 financial firms listed on the Amman Stock Exchange Market from 2008 to 2009, finding that audit committee independence has a significant influence on firm performance. Triki and Bouaziz (2012) investigate the effect of the audit committee's characteristics on financial performance, measured by ROA and ROE, of a sample of 26 Tunisian firms listed on the Tunis Stock Exchange from 2007 to 2010. The results show the essential role of the audit committee in protecting the interests of shareholders, as well as the effect of the audit committee's characteristics on the financial performance of Tunisian companies. Similarly, Tornyeva and Wereko (2012) investigate the relationship between corporate governance and the financial performance of insurance companies from 2005 to 2009 in Ghana. The findings show that audit committee independence is positively associated with the financial performance of insurance companies in Ghana.

Nevertheless, Al-Matari et al. (2012) argue that although a positive relationship between audit committee independence and firm performance is expected, and that an independent audit committee can reduce agency problems, there is no relationship between audit committee independence and marketing performance. Using a sample of 20 non-financial listed companies in Nigeria, Kajola (2008) does not find a significant association between audit committee composition and firm performance. The author also finds that having a majority of independent non-executive directors in the audit committee does not have a significant influence on firm performance. Ghabayen (2012) investigates the relationship between audit committee composition and firm performance using the annual reports of 102 listed non-financial firms in the Saudi market in 2011. The results reveal that audit committee composition has no effect on firm performance in the selected sample. This result is supported by Klein (1998), whose research fails to find any significant relationship between the proportion of independent directors on the audit committee and firm performance.

4.6.5 Corporate governance principles and firm performance

The implementation of the OECD Principles of Corporate Governance enables effective monitoring, helps firms attract investment, raises funds with a low capital cost, generates long-term economic value and enhances firm performance (Sengur, 2011). Previous research has used elements of the OECD Principles to examine the relationship between corporate governance and firm performance. For instance, Cheung et al. (2011) examine how changes in the quality of corporate governance practices relate to changes in future market valuations in Hong Kong. They construct a CGI to evaluate the quality of corporate governance practices of the largest non-financial companies in Hong Kong in 2002, 2004 and 2005 based on the OECD Principles of Corporate Governance. They find that regression analyses indicate a positive and statistically significant relationship between changes in the quality of corporate governance practices as measured by the CGI score and subsequent changes in market valuation.

Dao (2008) focuses on two related aspects of corporate governance in relation to the management of the equitised companies. First, the author examines the current state of corporate governance practice in Vietnam's companies. Second, Dao investigates the relationship between corporate governance practice and firm performance to identify how corporate governance works in 183 companies in Vietnam. The author indicates that there is a relationship between corporate governance and company performance. Cheung et al. (2010) assess the progress of corporate governance reform among Chinese listed companies using the OECD Principles of Corporate Governance and their effect on firm market valuation in the 100 largest listed firms in China's equity markets. The results show a positive relationship between market valuation and corporate governance practices.

Similarly, Sunityo-Shauki and Siregar (2007) study the understanding of the OECD Principles of Corporate Governance and firm performance in 192 Indonesian listed companies. The results show a positive effect of corporate governance principles on firm performance in Indonesian listed companies. Kalezić (2012) assesses the quality of corporate governance practice in light of the basic OECD Principles of Corporate

Governance and their effect on firm performance in Montenegro and finds that the quality of corporate governance practice is positively associated with corporate performance. Li and Tang (2007) investigate the relationship between corporate governance and firm performance of listed companies in China in 2003 based on shareholders' behaviours, information disclosure and stakeholders' rights. The empirical results show that corporate governance positively affects the performance and value of the listed companies.

4.7 Limitations of Existing Literature and Identifying Gaps

A review of the literature shows that most studies identifying developing countries (particularly in the MENA region) were paying increasing attention to the corporate governance system and trying to install principles of good corporate governance. Previous literature has focused on the level of compliance with national codes of corporate governance and international principles, has examined the level of corporate governance disclosure in companies and has analysed the state of the implementation of systems of regulation in developing nations. Some studies have investigated the difficulties that affect the improvement of corporate governance, and recommendations have been made to solve these problems. In addition, the review of empirical studies in different developing countries has provided strong evidence that corporate governance principles and mechanisms are still weak and that more effort is needed to tackle these challenges.

From the previous discussion, the empirical results of corporate governance and firm performance studies are mixed. These outcomes suggest that the single dimension measure by itself may not be an effective proxy for corporate governance; thus, this measure needs further investigation. Most of the literature that has examined the relationship between corporate governance and firm performance has utilised a few elements of corporate governance. In MENA countries, there is a need, then, for comprehensive research that focuses on developing countries, in particular, MENA countries, as the relation between corporate governance and performance in these countries is not fully explained by findings on this issue in developed economies. Therefore, the main aim of this study is to examine the relationship between corporate governance practices (principles and mechanisms) and firm performance using financial accounting and market value ratios in listed companies in the UAE.

In addition, the investigation of the relationship between corporate governance and firm performance shows a significant concentration on developed countries, but this issue has attracted only limited research on developing countries over the past decade. Empirical studies have mainly focused on specific dimensions or attributes of corporate governance, such as board size, leadership structure, board compensation and audit committee independence. Researchers have examined corporate governance principles as an index to explain the relationship among one or more elements, such as shareholder rights, transparency and the board director's responsibility for firm performance. Previous research has utilised financial performance and market value measures for firm performance, such as ROA, ROE and Tobin's Q. The literature shows that countries in the MENA region are concerned about the role of corporate governance in enhancing their economies and improving management practices in ways that have been tried in other developing countries. In general, a review of the previous literature shows that the MENA region has been given little attention regarding the effect of corporate governance practice on firm performance.

The current study is motivated by the gaps in the existing literature. First, no previous study has assessed the adoption of corporate governance principles (in particular, in the UAE) in the MENA region. This study is being conducted in the UAE on corporate governance practices that include the following: the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board of directors. Second, no prior research has examined the relationship between corporate governance and firm performance in MENA countries (especially in the UAE) by using governance principles and the UAE Code of Corporate Governance mechanisms based on the OECD and the UAE Code of Corporate Governance as comprehensive measures of corporate governance. Furthermore, the previous literature has not investigated the barriers to, and enablers of, the implementation of corporate governance in the UAE. Further, this study will measure firm performance using three measures—ROA, ROE and Tobin's Q—as comprehensive measures.

Corporate governance in the UAE is still in the development stage compared to that in the Western world. The literature on corporate governance in the UAE is also limited. This study will make an original contribution to knowledge by examining the development of corporate governance practice in the social, political and economic environments of the UAE as a particular case among the MENA countries. It will also examine the relationship between corporate governance and the performance of companies in developing countries, particularly the UAE. It will also explore the corporate governance mechanisms of listed companies based on the rules of governance in the UAE and the perceptions of stakeholders on possible obstacles and enablers to the development of the implementation of corporate governance practice in the UAE. It will then develop a model of best practice governance appropriate to the MENA economic environment.

4.8 Conclusion

This chapter has identified and discussed an overview of the literature on corporate governance and firm performance, with an explanation of the pertinent prior literature to identify the scope of contribution of the present study and the research gap. This chapter discussed the benefits of good corporate governance practice and the role of the OECD Principles of Corporate Governance in enhancing governance in the MENA region. In addition, it reviewed empirical studies about corporate governance in different developing countries, in particular, the MENA region. Then the chapter explored how corporate governance has influenced the firm’s performance. Consequently, the present study intends to systematically extend prior research in the MENA countries and the UAE context, in particular, and to overcome the limitations inherent in prior research. In doing so, the current study contributes to the literature of corporate governance by providing updated empirical evidence on the association between corporate governance principles and mechanisms with firm performance.

The chapter concludes with a discussion highlighting prior research on corporate governance and firm performance, and identifying any gaps in the existing literature. Of particular interest is the assessment of a corporate governance practice that still remains a controversial issue. Calls have been made for an investigation of the issue of corporate governance in the MENA region, in general, and in the UAE, in particular. The current study attempts to respond to such calls by developing a corporate governance model appropriate for the UAE, in particular, and the MENA region, in general. However, proceeding with the current research, following pertinent literature review and, consequently, identifying gaps in the existing literature requires the adoption of a theoretical framework for analysing the relationship between corporate governance and firm performance. Such a theoretical framework depicts the conceptual structure for supporting the study's argument and providing the necessary guidance for explaining the relationship between corporate governance and firm performance. The next chapter presents the theories and the theoretical framework that help explain the link between corporate governance principles and mechanisms and the firm performance, along with a detailed discussion of the conceptual framework adopted and the relevant hypotheses developed by the present study.

Chapter 5: Conceptual Framework and Hypothesis Development

5.1 Introduction

The purpose of this chapter is to present the conceptual framework applied to the research and to outline the model of corporate governance practice and firm performance that forms the basis of this study. A review of the limitations of previous research suggests that the relationship between corporate governance practice and firm performance has not been sufficiently studied in the MENA region, and particularly in the UAE. Further, there is little comprehensive research on how corporate governance principles and corporate governance mechanisms based on the agency and stakeholder theories are used to measure corporate governance and firm performance. The major objective of this study is to investigate the relationship between corporate governance practice and firm performance in developing countries such as the UAE. Accordingly, the present study aims to develop a corporate governance framework suited to the UAE context, and to build an understanding of corporate governance practice and its effect on firm performance in listed companies in the UAE.

This chapter consists of two sections. The conceptual framework is developed in the first part of the chapter, and five hypotheses that are relevant to the main objective of the study are identified in the second part. The conceptual framework developed in this chapter provides a basis to understand the effects of the corporate governance variables on firm performance, and it allows the development of hypotheses regarding the relationship of corporate governance principles with corporate governance mechanisms and firm performance measures such as ROA, ROE and Tobin's Q in the UAE. This chapter is structured as follows. Section 5.2 presents a theoretical perspective on corporate governance and firm performance. Section 5.3 addresses the development of the theoretical framework. Section 5.4 presents the development of a conceptual framework for the study. Section 5.5 provides a discussion of the hypotheses development for the study. Section 5.6 concludes.

5.2 Theoretical Perspective on Corporate Governance and Firm Performance

Corporate governance is central to the management and operation of modern companies, and there is an ongoing debate about which theoretical models are appropriate (Letza, Sun & Kirkbride, 2004). However, a lack of consensus in the definition of corporate governance has resulted in researchers from different backgrounds (finance, economics, sociology and psychology) proposing different theoretical views that are all aimed at understanding the complex nature of the concept (Lawal, 2012). A number of diverse fundamental theories underline corporate governance, including the original agency theory, stewardship theory, stakeholder theory, resource dependency theory, transaction cost theory and political theory (Abdullah & Valentine, 2009).

However, most discussions on corporate governance theories have focused on the shareholder and the stakeholder perspective (Letza, Sun & Kirkbride, 2004; Szwajkowski, 2000; Vinten, 2001). The purpose of the corporation and its associated structure of governance and arrangements are determined by two paradigms that each offer a different way of understanding governance (Ayuso & Argandona, 2007). Consequently, this research uses two theories—agency theory and stakeholder theory—to analyse the relationship between corporate governance and performance in listed companies based in the UAE. The main theories that have affected the development of corporate governance and been adopted in the current study will be discussed in the following section.

5.2.1 Agency theory

The separation of ownership and control is one of the key features of modern corporations, and corporate governance has become necessary to mitigate the principal–agent problem (Berle & Means, 1932). The agency problem was first highlighted by Adam Smith in the eighteenth century and explored by Ross (1973), with the first detailed description of the theory presented by Jensen and Meckling in 1976. Fama and Jensen (1983a, b), Williamson (1987), Aghion and Bolton (1992) and Hart (1995) further explicated this problem over the next two decades. The agency theory evolved from the economic literature and has developed into two separate streams: the positivist agent and the principal agent. Both streams concern the contracting problem of self-interest as a motivator of both the principal and the agent, and they share common assumptions regarding people, organisations and information. However, they differ in terms of mathematical rigour, dependent variables and style (Jensen, 1993). The agency relationship is described by Jensen and Meckling (1976) as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent.

According to this theory, shareholders who are the owners of the corporation appoint managers or directors and delegate to them the authority to run the business for the corporation's shareholders (Clarke, 2004). The agency relationship between two parties is defined as the contract between the owners (principals) and the managers or directors (agents) (Jensen & Meckling, 1976). On the basis of the agency theory, shareholders expect the managers or directors to act and make decisions in the owners' interests. However, managers or directors may not necessarily always make decisions in the best interests of the shareholders (Padilla, 2002). The separation of ownership and control produces an innate conflict between the shareholders (principals) and the management (agents) (Aguilera et al., 2008). This conflict of interest can also be exacerbated by ineffective management monitoring on the part of shareholders as a result of shareholders being dispersed and therefore unable, or lacking the incentive, to carry out necessary monitoring functions. Consequently, the managers of a company might be able to pursue their own objectives at the cost of shareholders (Hart, 1995).

Thus, two problems involving the agency theory occur in the agency relationship. The first problem is that, because it is difficult or expensive for the principal to verify what the agent is actually doing, the principal cannot verify that the agent has behaved appropriately. The second problem is that, because of differing attitudes towards risk, the principal and the agent may favour different courses of action (Eisenhardt, 1989). Shareholder efforts to monitor the agent—for instance, shareholder engagement and incentive schemes or contracts—lead to additional costs for the company (Solomon, 2010). Grant (2003) argues that the main purpose of shareholders (principals) is to maximise their value (interest), whereas the main purpose of agents is to expand and grow the corporation because success will reflect favourably on management.

According to Hart (1995), a corporate governance issue occurs in an organisation in the presence of two conditions. First, there is a conflict of interest or agency problem between members of the company. Second, the conflict of interest or agency problem cannot be dealt with through a contract. Hart observes that there are several reasons why contracting might not always be possible. In particular, it is impossible for a contract to cover all eventualities in relation to the firm. In addition, there are costs associated with negotiating contracts and enforcing them. This conflict can exist between or among owners, managers, workers or customers, which means that there will not always be comprehensive contracts governing participants in companies (Ramsay, 1997).

Effective corporate governance can reduce agency costs and tackle problems related to the separation of ownership and control. It can be viewed as a set of mechanisms designed to reduce agency costs and protect shareholders from conflicts of interest with agents (Fama & Jensen, 1983a). The objective of corporate governance mechanisms, then, is to encourage management to make the same decisions that owners would have made themselves, such as investment in positive net present value (Shleifer & Vishny, 1997). From the perspective of the agency theory, corporate governance is viewed as a monitoring or control mechanism that is sufficient to protect shareholders from conflicts of interest with agents (Fama & Jensen, 1983b). Gursoy and Aydogan (2002) argue that the problems of the separation of ownership and control on the one hand, and cost agency on the other, could be reduced by the quality of corporate governance because it promotes goal congruence (Conyon & Schwalbach, 2000). However, Jensen (2001) highlights that these issues will increase if the corporate governance structure is weak. Therefore, the aim of the agency theory is to determine the most cost-effective governance method for tackling any possible agency issues (Dey, 2008).

According to the agency theory, corporate governance mechanisms are needed to mitigate the problems associated with the theory, which is designed to provide the basis of corporate governance through the use of internal and external mechanisms (Weir, Laing & McKnight, 2002; Roberts, McNulity & Stiles, 2005). The objectives of corporate governance mechanisms are to ‘protect shareholder interests, minimize agency cost and ensure agent–principals interest alignment’ (Davis, Schoorman & Donaldson, 1997, p. 23). According to Shleifer and Vishny (1997) and Kiel and Nicholson (2003), the agency theory suggests that the separation of the positions of chairman and CEO leads to higher performance. Fama (1980) contends that the appointment of non-executive directors to a board is designed to control management issues and is intended to have a positive effect on firm performance (Fama & Jensen, 1983b; Jensen & Meckling, 1976). Yoshikawa and Phan (2003) and Barnhart and Roseinstein (1998) emphasise that larger boards seem to be less helpful and more difficult to coordinate, which results in a negative effect on performance.

5.2.2 Stakeholder theory

The stakeholder theory has been developing continuously over the past three decades. One of the first theorists to present the stakeholder theory as inherent in management discipline was Freeman (1984). He also proposed a general theory applicable to firms, which is based on the premise that firms should be accountable to a broad range of stakeholders (Solomon & Solomon, 2004). Freeman (1984, p. vi) defines stakeholder as ‘any group or individual who can effect or is effected by the achievement of corporation’s purpose’. Thus, the term stakeholder may cover a large group of participants; in fact, it applies to anyone who has a direct or indirect stake in the business (Carroll & Buchholtz, 2002). Stakeholders include shareholders, employees, suppliers, customers, creditors and communities in the vicinity of the company’s operations, in addition to the public (Solomon, 2010).

According to Wheeler and Sillanpaa (1997), the stakeholders that should be taken into consideration in the governance structure include investors (including banks), managers, employees, customers, business partners (suppliers and subsidiaries), local communities, civil society (including regulators and pressure groups) and the natural environment. The relationship between the company and its internal stakeholders (such as employees, managers and owners) is framed by formal and informal rules that have been developed in the course of the relationship. The stakeholder theory supports the contention that ‘companies and society are interdependent and therefore the corporation serves a broader social purpose than its responsibilities to shareholders’ (Kiel & Nicholson, 2003a, p. 31).

Donaldson and Preston (1995) suggest that the literature on the stakeholder theory can be seen as having three branches: descriptive, instrumental and normative. The descriptive branch considers how managers deal with stakeholders and how they represent stakeholder interests, the nature of a company, the way managers think about managing, the way board members think about the interests of company constituencies and how some companies are actually managed. The instrumental branch is concerned with the organisational consequences of taking into account stakeholders in management, examining the connections between stakeholder management and achieving traditional corporate goals such as profitability and growth. The normative branch addresses the purpose of a company, including the identification of moral or philosophical guidelines linked to the activities or management of that company.

Thus, the aim of the agency theory is to concentrate on shareholders' rights and the separation of ownership from control so that a company can maximise the wealth of its shareholders. The stakeholder theory focuses not only on shareholders, but it has been expanded to take into account the interests of many different stakeholder groups, including interest groups with social, environmental and ethical considerations (Clarke, 2004; Letza, Sun & Kirkbride, 2004). This is consistent with the views of the OECD (2004), which defines corporate governance as a set of relationships between a company's management, its board, its shareholders and other stakeholders.

This view is commonly referred to as the stakeholder model of corporate governance, whereby stakeholders may include customers, suppliers, providers of complementary services and products, distributors, and employees. Thus, the theory holds that corporations should be managed for the benefit of all who have a stake in the firm. For example, Berman et al. (1999) document that a strategic stakeholder model used by companies to address the concerns of stakeholders will improve company performance. Wright et al. (2003, p. 267) argue that 'stakeholder involvement in corporate governance must rely on a culture of trust, community and consensus rather than of individualistic opportunism as in a shareholder-based system'. The stakeholder theory serves to build good relationships between firms and various internal and external stakeholders in the broader environment, as it is essential for the implementation and improvement of effective governance mechanisms and processes (Christopher, 2010).

The stakeholder theory is particularly important for managers in a corporation, who have critical networks of relationships other than those with the owners, managers and employees who are part of the agency theory (Freeman, 1999). Kaplan and Norton (1996) argue that a company should develop relationships with customers by improving customer services, thereby enhancing its financial performance. Atkinson, Waterhouse and Wells (1997) emphasise that employees and communities also need to be included in relationships in order to enhance financial performance. Recently, the stakeholder approach has become acceptable in the areas of accounting and finance (Solomon, 2010). Indeed, according to the stakeholder model, corporate governance is mainly concerned with how effective different governance systems are in encouraging long-term investment and commitment among the various stakeholders (Maher & Anderson, 2000). Thus, the stakeholder theory is an important theory in terms of corporate governance (Abu-Tapanjeh, 2009). Clearly, the influences and functional mechanisms relating to stakeholders can affect a firm's ability and performance (Clarkson, 1995).

Corporate governance research discusses the stakeholder theory in relation to the responsibility that firms have to the wider community. This theory has gained in influence through suggestions that the practice of stakeholder management positively contributes to firm performance (Donaldson & Preston, 1995), with researchers finding a strong and consistent relationship between corporate governance and firm performance as a result of the stakeholder theory's implementation (Udayasankar, Das & Krishnamurti, 2005). For instance, stakeholder relations have also been found to have a significant effect on firm performance, and Hillman and Keim (2001) establish a positive relationship between managing effective stakeholders and enhancing value for shareholders. Hillman and Keim argue that examining the link between stakeholders on the board and stakeholder performance could show a direct correlation with the financial performance of the firm.

According to Clarke (2004), if corporate managers are there to maximise the total wealth of the organisation, they must take into account the effects of their decisions on all stakeholders. Pesqueuy and Damak-Ayadi (2005) indicate that the practice of stakeholder management will result in higher profitability, stability and growth, and will thus affect firm performance. Consequently, good corporate governance must focus on creating a feeling of security that a company will consider the interests of stakeholders, as the board of directors is responsible for the company as well as its stakeholders (Ljubojevic & Ljubojevic, 2011). According to Jensen (2001), the stakeholder theory solves the problems caused by multiple objectives, as this theory seeks to maximise value in the long term. Moreover, if management decisions do not take into account the interests of all stakeholders, the firm cannot maximise its value.

In summary, the integration of the agency and stakeholder theories highlights the special role of the company toward shareholders and all other stakeholders. Hill and Jones (1992) contended that the stakeholder-agency paradigm explicitly focused on the causes of conflict between managers and stakeholders. In addition, the stakeholder-agency theory highlights the concepts underlying the alignment of management and stakeholders interests in the conflict of such interests. The agency theory calls for governance mechanisms to provide sufficient monitoring or control methods to protect shareholders from conflicts of interest with agents. The stakeholder theory, however, enables fostering good relationships with a range of stakeholders and emphasises corporate efficiency in a social context; it also underpins the corporation's purpose of maximising shareholders' wealth.

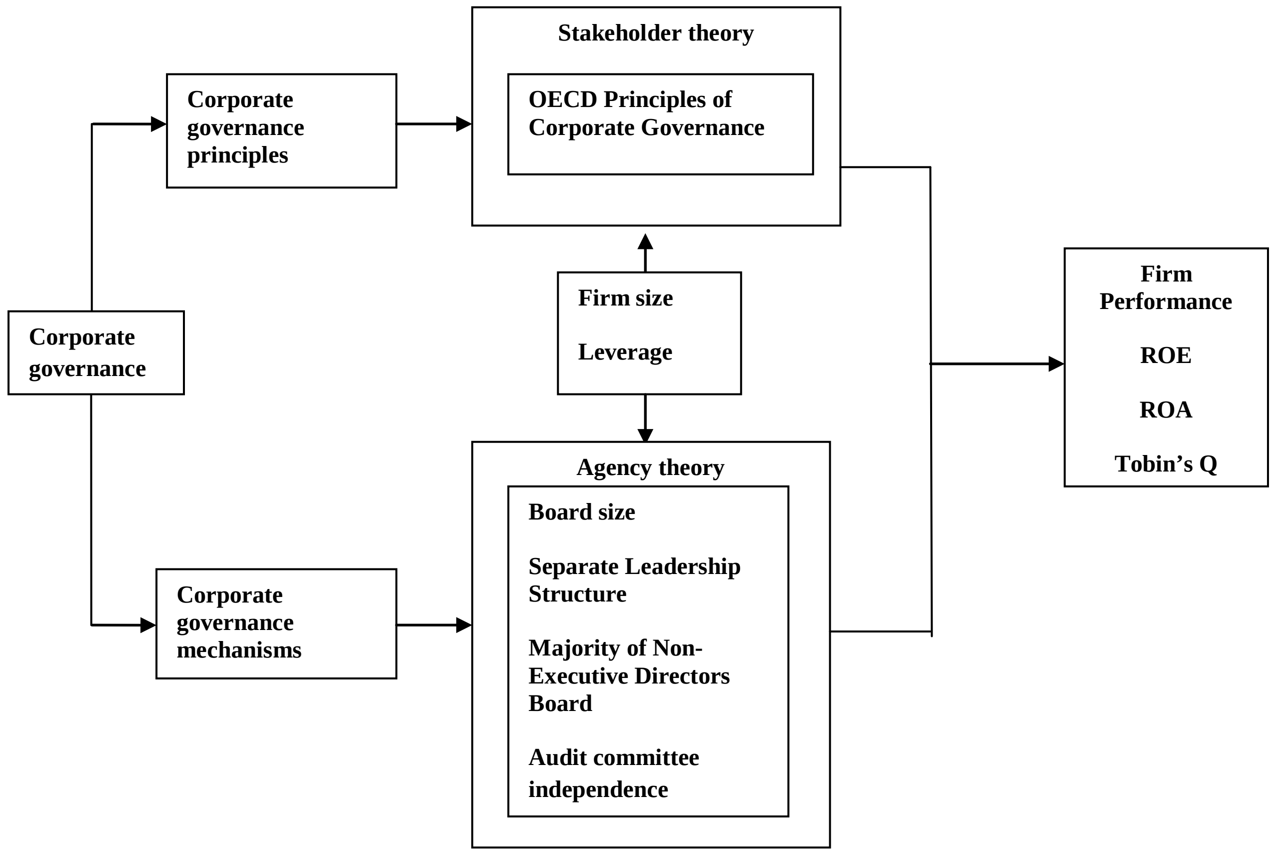
Therefore, using both theories is the most effective approach as compared to other governance theories, because it involves combining all the elements of corporate governance to improve firm performance. This study will rely on the agency theory-stakeholder theory that fits the nature and scope of the empirical work. Hence, the stakeholder-agency theory could provide some useful insights into the current research.

5.3 Theoretical Framework of the Research

A framework drawn from the previous discussion of these two theories is shown in Figure 5.1. This framework represents corporate governance using corporate governance mechanisms and corporate governance principles. The mechanisms are supported by the agency theory, while the principles are supported by the stakeholder theory. Therefore, on the basis of the above discussion of corporate governance theories, it is clear that the agency theory explains the conflict of interest between principals and agents, and it has performed a significant and essential function in the conception and reform of corporate governance mechanisms (Robert, 2005). According to the agency theory, a small board size, separate leadership structure, non-executive directors and independent audit committees are important in the management monitoring process and hence lead to better firm performance. Thus, this theory has brought about a major improvement in the corporate governance framework (Mallin, 2010).

The stakeholder theory suggests that good corporate governance practice could increase firm performance based on the stakeholder management framework. With regard to the stakeholder theory, the OECD Principles of Corporate Governance broadly advocate the view that company management should consider all of the different interests of the stakeholders. Donaldson and Preston (1995) report that the stakeholder theory can be used as a framework to investigate empirical claims and estimations that are relevant to the stakeholder concept, and to study the relationship between corporate performance and stakeholder management. Figure 5.1 shows the theoretical foundation framework for the empirical investigation of the relationship between corporate governance principles and firm performance, and also between corporate governance mechanisms and firm performance in listed companies in the UAE.

Figure 5.1 Theoretical Framework: Corporate Governance and Firm Performance



Based on the discussion of the agency and stakeholder theoretical perspectives, stakeholder and agency theories provide an appropriate justification and suitable conceptual framework for the present study. The theories expect that good corporate governance principles and mechanisms have a significant effect on firm performance in the UAE. These theories are adopted as the study's theoretical framework because the study seeks to understand to what extent the corporate governance may influence firm performance in responding to shareholders' and other stakeholders' interests. However, this argument needs to be examined empirically. Therefore, the empirical part of the study examines the validation of this theoretical argument. The theoretical framework is carried through the study to revisit these theories in light of the results of the empirical study. The discussion and theoretical justification are the foundation of the choice of each corporate governance variable, and testable hypotheses are developed from these variables.

5.4 Development of a Conceptual Framework for This Study

The purpose of this study is to examine current corporate governance practice and explain the implications of this practice on firm performance in the case of listed companies in the UAE. The conceptual framework (see Figure 5.2) illustrates the link between the theoretical framework discussed above and the corporate governance variables and firm performance that are investigated in this study. Evidence in empirical research suggests that several variables influence the relationship between corporate governance practice and firm performance, as discussed in Chapter 3. The conceptual framework involves corporate governance mechanisms and corporate governance principles as independent variables. Some of the dependent variables identified in the corporate governance literature to measure firm performance include ROA, ROE and Tobin's Q. Firm size and leverage are control variables in this study.

5.4.1 Independent variable: corporate governance practice

The present study identifies the corporate governance practice variable on the basis of corporate governance mechanisms and principles. The corporate governance mechanisms referred to here include board size, separate leadership, board composition and audit committee independence. This research uses four corporate governance mechanisms reported in companies' annual reports to comply with the code of corporate governance in the UAE, as discussed in Chapter 2. In previous studies (Daily & Dalton, 1994; Barnhart & Roseinstein, 1998; Weir, Laing & McKnight, 2002; Kiel & Nicholson, 2003; Abdullah, 2004; Aggarwal et al., 2009), these corporate governance mechanisms were used to examine the relationship between corporate governance mechanisms and firm performance. The results show that the governance mechanisms listed above affect firm performance and are therefore relevant to the conceptual framework as an influencing factor; this is supported by the agency theory.

The present study develops an index to measure the principles of corporate governance using a survey method to calculate that index based on the OECD Principles of Corporate Governance. These principles consist of the rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and board responsibilities, as discussed in Chapter 3. Corporate governance principles have been used in previous research to investigate effects on firm performance (Li & Tang, 2007; Cheung et al., 2011; Dao, 2008; Sunityo-Shauki & Siregar, 2007; Kalezić, 2012). As a result, this study considers that the principles of corporate governance are important in influencing firm performance in the conceptual framework, as supported by the stakeholder theory. This comprehensive framework provides a clear understanding of the role of corporate governance practices in influencing firm performance in the listed companies.

5.4.2 Dependent variable: firm performance

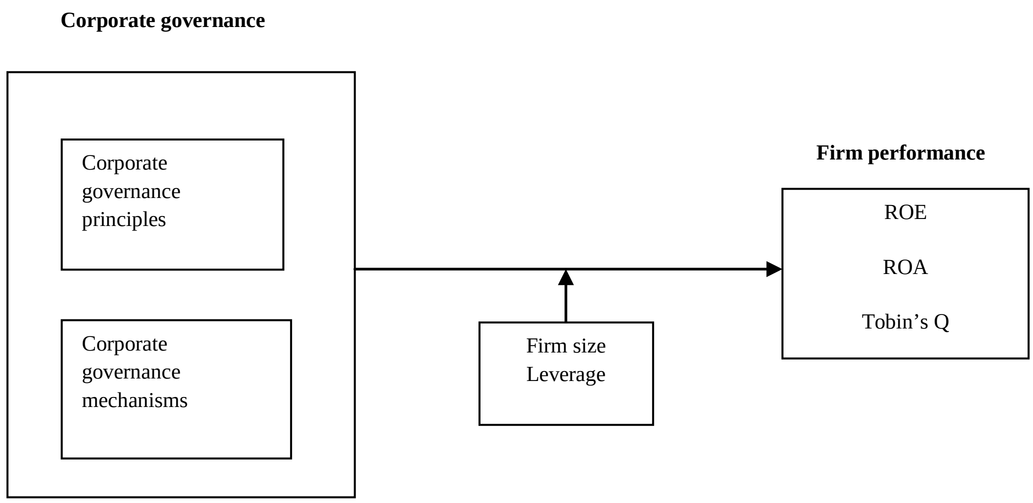
The present study considers firm performance a dependent variable and measures it on the basis of accounting measures (ROA and ROE) for the short-term analysis of operating performance, and Tobin's Q, which is the most widely used long-term proxy for firm valuation. Previous empirical research has used different measures of corporate governance-based firm performance; for instance, Babatunde and Olaniran (2009) utilise ROA and Tobin's Q as measures of firm performance in 62 firms listed on the Nigerian Stock Exchange. Haat, Rahman and Mahenthiran (2008) provide empirical evidence for the effect of corporate governance practices on firm performance by using ROA and ROE as proxies of performance among a sample of 50 non-finance firms listed on stock exchanges in Pakistan from 2003 to 2005.

Imam and Malik (2007) use Tobin's Q as the performance measure using data from two samples for 2000 and 2003 from listed companies on the Dhaka Stock Exchange. Heenetigala and Armstrong (2011) investigate the effect of corporate governance practices on firm performance and utilise ROA, ROE and Tobin's Q to measure performance using data from the annual reports of a sample of 37 companies in Sri Lanka in 2003 and 2007. As Lamport, Seetanah and Sannassee (2011, p. 9) state, 'there is no agreed consensus on which proxy is the best'. Consequently, the conceptual framework utilises comprehensive measures based on accounting formulas (ROA and ROE) for financial performance, and Tobin's Q market-to-firm valuation ratio. These are commonly used measures to assess firm performance and have also been used in previous research on corporate governance and firm performance (Sengur, 2011). It is clear from previous discussions that good corporate governance is an important element in enhancing firm performance, as presented in Chapter 4.

5.4.3 Control variables

Firm size is used as the control variable in this study because it has been found to be associated with firm performance. For instance, Lehn, Patro and Zhao (2009) report that firm size affects firm performance, and Haniffa and Hudaib (2006) empirically document a significant negative association between firm size and firm performance. However, Aljifri and Moustafa (2007) provide empirical data supporting a positive association between firm size and firm performance. In addition, leverage has been widely used as a control variable in a number of empirical studies. Alsaeed (2006) examines the relationship between corporate governance and a company's financial performance, revealing that debt negatively affects performance. Mitton (2002) shows that weak corporate governance could correlate with higher debt levels; therefore, poor stock price performance is a recognised leverage factor. The present study uses firm size and leverage as control variables in order to be consistent with prior research, which has investigated the relationship between corporate governance and firm performance (Himmelberg, Hubbard & Palia, 1999; Al-Haddad, Alzurqan & Al-Sufy, 2011). The conceptual framework presented in Figure 5.2 shows that, as controlling variables, firm size and leverage influence corporate governance and firm performance in the listed companies.

Figure 5.2 Conceptual Framework: Corporate Governance and Firm Performance



The conceptual framework of the current research provides an understanding of how the findings are accurately related to the research questions and hypotheses. It plays a significant role in the explanation or justification of the link between what the study expects and the findings. Section 5.5 presents the research conceptual framework; Section 5.6 presents the development of the research hypotheses.

5.5 Hypothesis Development

The main aim of this study is to investigate the role of corporate governance practice in influencing the performance of listed companies in the UAE. To achieve this, the theoretical framework presented above will be used to develop testable hypotheses for the study. The basis of the hypotheses is that good corporate governance practices, the implementation of corporate governance principles and corporate governance mechanisms—namely board size, board leadership structure, board composition and audit committee's independence—will be reflected in firm performance. Following is a detailed outline of how the hypotheses will be tested, how they will relate to the agency and how stakeholder theories and testable hypotheses are developed.

5.5.1 Summary of hypotheses

The hypotheses in this study are based on the argument that the adoption of good corporate governance—namely corporate governance mechanisms and corporate governance principles—affects firm performance in the UAE. Hypothesis 1 (H1) will be tested and relates to the stakeholder theory perspective that proposes that companies take into account the interests of all stakeholders could improve company performance. H1 concerns corporate governance principles and is based on the suggestion that their implementation can taking into account all the interests of stakeholders and could influence the performance of listed companies and, thus, produce positive relationships in the listed companies.

Hypotheses 2, 3, 4 and 5 (H2, H3, H4 and H5) will be tested and relates to the agency theory view that assumes that good corporate governance mechanisms could reduce potential conflicts between managers and the interests of the shareholders and improve the performance of listed companies. These hypotheses suggest that strong internal governance mechanisms (board size, separate leadership structure, composition of the board and audit committee independence) lead to better company performance; thus, there is a positive relationship between corporate governance mechanisms and the performance of the listed companies. H2 suggests that large boards affect performance in a negative way, because having a significant number of board members may lead to a free-rider problem. H3 suggests that splitting the roles of chairman and CEO in the listed companies results in better performance through increased monitoring that, in turn, has a positive effect on the listed companies. H4 suggests that the composition of the board can have a positive effect on performance and that a majority of non-executives on the board can provide improved monitoring mechanisms to protect shareholders' rights and enhance firm performance. H5 suggests that the audit committee's independence and performance have a positive effect on firm performance, as committees play an important role in management monitoring by reducing information asymmetry problems, which may result in enhanced performance in the listed companies. The explanation about how these hypotheses inform the agency and stakeholder theories is presented in Chapter 9.

5.5.1.1 Corporate governance principles and firm performance

The conceptual framework of this study suggests that the role of corporate governance principles is important in improving firm performance. The advantages of good corporate governance are now broadly understood due to the existence of many studies and discussions on corporate governance by the OECD (Witherell, 2004). Good corporate governance facilitates positive relationships between a company's management, its board, its shareholders and other stakeholders (OECD, 2004). This is confirmed by Freeman (1984), who, as the proposer of stakeholder theory, argues that a firm can carry out effective business and achieve its objectives by managing good relationships with stakeholders.

The proposal that is fundamental to the stakeholder theory is that a firm's success is based on the efficient management of all of the relationships that a company has with its stakeholders (Elijido-Ten, 2009). This is supported by Christopher (2010), who argues that the stakeholder theory provides a foundation that enables management to be aware of the various needs of all stakeholder bases and to align those interests with the company's various objectives. Thus, the stakeholder theory is an important factor in corporate governance (Abu-Tapanjeh, 2009) and invites firms to consider the interests of stakeholders in order to maximise firm wealth and the combined benefits offered by all stakeholders (Donaldson & Preston, 1995). This provides clear evidence that the influences and functional mechanisms of stakeholders can affect a firm's ability and performance (Clarkson, 1995).

According to John and Senbet (1998), who provide a comprehensive evaluation of corporate governance and the stakeholder theory in particular, a company that protect the interests of all stakeholders could increase its value in the long term. Mallin (2010, p. 21) highlights that 'stakeholders theory is coming more into play as companies increasingly become aware that they cannot operate in isolation and that, as well as considering their shareholders, they need also to have regard to a wider stakeholder constituency'. The stakeholder perspective states that firms should consider the interests of any individuals or organisations with a stake in those firms (Shao, 2010). Good corporate governance practices are considered an internal management monitor and an effective tool that will assist the firm to attain higher performance (Ghabayen, 2012).

Clearly, corporate governance practice based on the OECD Principles is the essential determinant of firm performance in the literature. For instance, Li and Tang's (2007) empirical results show that corporate governance has a positive effect on the performance and value of the listed companies in China. Likewise, Dao (2008) finds that corporate governance practice influences firm performance (i.e., ROA and ROE) in Vietnam's companies, while Sunityo-Shauki and Siregar (2007) reveal similar positive results in Indonesian listed companies. Cheung et al. (2011) examine the relationship between changes in the quality of corporate governance by using the OECD Principles of Corporate Governance and subsequent market valuation in listed companies on the Hong Kong Stock Exchange. The results show that good corporate governance practices make it possible to predict future changes in market valuation and Tobin's Q values in Hong Kong. Kalezić (2012) finds that the quality of corporate governance practice is positively associated with corporate performance in the case of 43 listed companies in Montenegro.

Based on the discussion above, the aim of this research is to investigate whether there is a relationship between corporate governance principles and firm performance in the UAE based on the stakeholder theory and using the OECD Principles of Corporate Governance. In the context of the UAE, corporate governance principles are considered a vital element in improving firm performance as part of the conceptual framework. To test the above argument, the following hypothesis is suggested:

H1: The implementation of corporate governance principles has a positive association with the firm performance of listed companies in the UAE.

5.5.1.2 Board size and firm performance

The second hypothesis of the study concerns the size of the board in affecting firm performance. There is considerable evidence that the size of the board plays an important role in corporate governance (Al-Haddad, Alzurqan & Al-Sufy, 2011). Cheng, Evans and Nagarajan (2008) believe that the significance of the board's size is well recognised in corporate governance procedures. In view of this consideration, the quality of deliberation among members and the ability of the board to achieve the best possible corporate decisions are influenced by board size (Lawal, 2012). Thus, a large board is more likely to be effective in monitoring management functions because that group can provide more skills and expertise to help solve problems (Chaganti, Mahajan & Sharma, 1985; Dalton et al., 1998). In addition, Jackling and Johl (2009) argue that a large board improves the quality of strategic decisions in a manner that will eventually affect performance, as it will lead to a greater depth of intellectual knowledge. Pearce and Zahra (1992) and Dalton et al. (1999) suggest that board size is one of the most important determinants of effective governance.

However, there are drawbacks to large boards, such as coordination costs and free-rider problems. Topak (2011) states that a large board of directors affects communication, decision-making and coordination between directors, resulting in additional costs. Thus, large boards may result in mismanagement and a lack of coordination and cohesiveness, making it difficult to monitor performance (Conyon & Peck, 1998). In contrast, Mashayekhi and Bazaz (2008) analyse corporate governance and firm performance in listed companies in Iran and report that small boards are capable of monitoring management more closely, resulting in higher firm performance levels. This means that agency costs are reduced, and an underperforming CEO in the firm is less likely to be dismissed by a small board (Yermack, 1996). Pathan, Skully and Wickramanayake (2007) note that small boards oversee managers more effectively in Thai banks, resulting in fewer free-rider problems and lower agency costs.

A review of the literature concerning the relationship between corporate performance and board size shows mixed results. The majority of the studies indicate a negative relationship between board size and firm performance (Jensen, 1993; Barnhart & Roseinstein, 1998; Van Ees, Postma & Sterken, 2003; Cheng, Evans & Nagarajan, 2008; Shakir, 2008; Guest, 2009). Topak (2011) concludes that a large board of directors is more costly and affects communication, decision-making and coordination between the directors on the board. However, Kiel and Nicholson (2003) examine the relationship between board size and corporate performance in 348 of Australia's largest publicly listed companies and find that board size positively influences firm performance. This is supported by Chaganti, Mahajan and Sharma (1985), Dalton et al. (1998) and Dallas (2001), who believe that a large board can enhance decision-making among board members due to the presence of more expertise, which can be used to help prevent corporate failure.

Many views have been expressed regarding board size and whether it has a positive or negative association with firm performance. The first of these is that a large board creates an agency cost and free-rider problem and hinders the monitoring of firm performance. The second argues that a small board may be more appropriate because it may function more efficiently in terms of corporate deliberations and decision-making and can therefore be expected to enhance firm performance (Lawal, 2012). While the evidence is mixed, there may be a relationship between board size and firm performance. As suggested by the agency theory, the conceptual framework of this study takes into account the importance of board size in affecting firm performance. To test the above argument in relation to the Emirates context, the following hypothesis is proposed:

H2: Board size has a negatively significant relationship with the firm performance of listed companies in the UAE.

5.5.1.3 Leadership structure and firm performance

The third hypothesis that is relevant to this study concerns the role of leadership structure in affecting the performance of listed companies. This hypothesis has been developed on the basis of the agency theory, which suggests that the roles of CEO and chairman should be separate in order to protect shareholders' rights (Williamson, 1988). A combined leadership structure has been criticised as an inappropriate way to build the most powerful relationships in a firm. That is, the separation of the role of CEO and chairman can enhance the quality of board monitoring (Mak & Li, 2001; Goyal & Park, 2002). Fama and Jensen (1983b) show that if one person works as both CEO and chairman, potential conflicts of interest within the company may be aggravated because the board's activities will be aligned excessively with the interests of the managerial team.

Combined leadership, where one person occupies the role of chairperson of the board and CEO of the company, may result in conflicting perspectives that will hinder the effectiveness of the board (Donaldson & Davis, 1991). Therefore, the roles of the CEO and chairman should be separated on the basis that there is a conflict of interest between owners and managers from an agency theory perspective (Jensen & Meckling, 1976). In addition, Jensen (1993) reports that a concentration of power may occur on the board if the CEO is also the board's chairman, which poses a risk of the CEO making decisions in his or her own interests rather than in the interests of the shareholders. However, Boyd (1995) argues that a chairman with a CEO position provides the company with the apparent direction of a single leader who will concomitantly respond faster to external events. Finegold, Benson and Hecht (2007) reveal mixed evidence regarding how the duality or the separation of those roles affects firm performance.

Several studies examine the separation of the chairman of the board and CEO roles, positing that agency problems are greater when the same person occupies the two positions. Yermack (1996) states that firms are more valuable when the roles of CEO and chairman of the board are occupied by different people. According to Liang and Li (1999), separating the two roles is not necessarily a positive factor for a company. However, some studies advocate separation in order to reduce opportunistic behaviour, which will in turn allow the board to exercise more control and avoid conflicts of interests (Daily & Dalton, 1994). The separation of the CEO and chairman roles can assist in reducing the domination of the board by management (Van den, Berghe & Levrau, 2004).

Based on the above argument, the examination of empirical research has provided important insights into the relationship between leadership structure and performance (Abdullah, 2004; Rechner & Dalton, 1989). In addition, separating the CEO and chairman roles makes the board of directors more likely to be effective in monitoring management’s performance because agency costs are reduced and there is an emphasis on corporate transparency and accountability (Weir & Laing, 2001). Consequently, in the context of the UAE, a separate leadership structure is considered an important governance mechanism for improving firm performance in the conceptual framework of the study. To test the above argument in relation to the UAE context, the following hypothesis is proposed:

H3: Separate leadership has a positively significant relationship with the performance of listed companies in the UAE.

5.5.1.4 Board composition and firm performance

The fourth hypothesis that is relevant to this study concerns the role of board composition in affecting the performance of listed companies. Non-executive directors are an important component of governance and can influence the performance of listed companies. The success of a company mostly depends on the balanced composition of a board that consists of inside and outside directors (Ahmed & Gabor, 2012). Some authors argue that boards that are dominated by non-executive directors may help to alleviate the agency problem by monitoring and controlling the opportunistic behaviour of management and by ensuring that managers are not the sole evaluators of their own performance (Jensen & Meckling, 1976; Baysinger & Hoskisson, 1990). Board monitoring and control function becomes difficult on an insider-dominated board because board members are unlikely to undertake appropriate monitoring of themselves (Fama, 1980).

The results of previous studies focusing on the relationship between board composition and firm performance are mixed. Laing and Weir (1999) argue that non-executive directors are more likely to oppose corporate strategies that they believe are not in the best interests of the shareholders. Other researchers, such as Chaganti, Mahajan and Sharma (1985), Rechner and Dalton (1989), Zahra and Stanton (1988), Fosberg (1989), Hermalin and Weisbach (1991), Grace, Ireland and Dunstan (1995) and Dalton et al. (1998) do not find any relationship between board composition (outside versus inside independent directors) and firm performance. In a study carried out on the 943 largest US firms over a period of 10 years, Bhagat and Black (2000) conclude that there is no clear evidence that increasing the proportion of outside directors on the board enhances firm performance. This result is supported by other studies (Barnhart, Marr & Rosenstan, 1994; Barnhart & Rosenstein, 1998) that find no evidence regarding the relationship between board composition and firm performance.

However, according to Jensen and Meckling (1976), boards dominated by non-executive directors may help to mitigate the agency problem by monitoring and controlling opportunistic behaviour on the part of management. Hutchinson (2002) finds that a higher proportion of independent directors on the boards of high-growth firms is associated with better firm performance in Australia. O’Connell and Cramer (2010) examine the relationship between board composition and firm performance for 77 listed firms in Ireland, finding that boards with a high proportion of independent directors have a positive effect on firm performance. Kyereboah-Coleman and Biekpe (2006) also report a positive association between a high proportion of outside board members and firm performance. The authors note that firms should increase the number of independent board members in order to overcome poor firm performance. Based on the argument of the agency theory, the findings in previous studies (Baysinger & Butler, 1985; Weisbach, 1988; Baysinger & Hoskisson, 1990; Zahra & Pearce, 1989) also support the proposition that board independence has a positive effect on firm performance.

According to the arguments developed in the agency theory, non-executive directors are an important component of the board's structure and can positively affect firm performance. Previous research has shown that there is a link between board composition and firm performance. As a result, non-executive directors are considered an important element of corporate governance that may affect firm performance in the UAE in the conceptual framework. To test the above arguments, the following hypothesis is proposed:

H4: Non-executive directors have a positive relationship with the firm performance of listed companies in the UAE.

5.5.1.5 Audit committee independence and firm performance

The fifth hypothesis that is relevant to this study concerns the role of audit committee independence in affecting the performance of listed companies. According to the agency theory, there is a positive and significant association between the presence of an audit committee and the quality of financial statements (Felo, Krishnamurthy & Solieri, 2003; Beasley, 1996). The independent members of the audit committee can assist the principals in monitoring management activities and reducing potential benefits from withholding information, as per the agency theory (Beasley, 1996). In this regard, the agency theory confirms that the presence of an audit committee on the board of directors is sufficient to ensure the reliability of financial statements (McMullen, 1996). Thus, the audit committee has an essential function in mitigating agency problems and addressing deficiencies in the company, such as a lack of independent external auditors and inefficient internal control systems, which can lead to agency problems (Islam et al., 2010).

The independence of audit committee members is viewed as a vital element in ensuring that the audit committee fulfils its main responsibility of making judgements in the best interests of a company's shareholders and managing the financial statement process (Baxter & Cotter, 2009; Munro & Buckby, 2008). In addition, Spira (2003) shows that the audit committee can be effective in protecting the interests of shareholders and ensuring the reliability of information that is disclosed. The responsibility of an audit committee is to oversee the transparency of financial reports and ensure the objectivity of an external audit by providing a channel of communication (Vicknair, Hickman & Carnes, 1993). Previous studies have revealed that having independent members in the firm leads to an increase in audit committee effectiveness and overall corporate governance success (Klein, 2002b; Carcello & Neal, 2000).

Empirical results regarding the relationship between audit committee independence and firm performance are mixed. The findings reveal that firms with a high proportion of independent audit committee members show improved performance (Saat et al., 2012). Chidambaram and Brick (2008), Chan and Li (2008) and Aggarwal et al. (2009) find that firms with a high number of independent audit committee members show an increase in the level of board monitoring and an improvement in financial performance. Erickson et al. (2005) report a positive relationship between audit committee independence and firm performance. However, Kajola (2008) studies the relationship between audit committee composition and firm performance using a sample of 20 non-financial listed companies in Nigeria and does not find a significant association. Mak and Kusnadi (2005) also fail to find a significant relationship between the proportion of independent directors on the audit committee and firm value.

The relationship between audit committee independence and firm performance has been reported in prior research. As suggested in the agency theory, the monitoring function of independent audit committees is an essential mechanism of corporate governance that is aimed at reducing information asymmetry between shareholders and managers and thus mitigating agency problems (Hutchinson & Zain, 2009). In the conceptual framework, the audit committee is considered an important factor in the improvement of firm performance in the context of the UAE. To test the above argument, the following hypothesis is proposed:

H5: Audit committee independence has a positive relationship with the firm performance of listed companies in the UAE.

5.6 Conclusion

This chapter discussed the relevance of two theories used in corporate governance research. The agency theory and the stakeholder theory have been widely employed in examining corporate governance practice and firm performance. In addition, this chapter presented the development of hypotheses for analysing the relationship between corporate governance practice and firm performance in listed companies. It commenced with an overview of corporate governance theories and the theoretical framework, followed by a link to the conceptual framework of the study. The conceptual framework consists of three main components: corporate governance principles, corporate governance mechanisms and the performance of listed companies. Finally, this chapter presented hypotheses based on the presentation of the conceptual framework for this research. The next chapter will present the methodology for testing the hypotheses developed for the conceptual framework in this chapter.

Chapter 6: Research Methodology

6.1 Introduction

This chapter explains the methodology employed in the present study and how it complies with the study's objectives. The aim of this study is to explore and understand how corporate governance affects firm performance in terms of financial performance and the market value of listed companies in the UAE. This chapter describes the methodology that was applied in undertaking the research and justifies the use of quantitative research methods to analyse the variables used in developing the hypotheses of the study. The two empirical models employed to test the relationship between corporate governance and performance in the firms is also presented. The quantitative analyses discussed in this chapter include descriptive, non-parametric, correlation and regression analysis.

The chapter is structured as follows. Section 6.2 explains the research methodology, while Section 6.3 identifies paradigms of research and Section 6.4 outlines the objectives of the research. Details of the data collection method employed in the study (questionnaire and secondary data) are discussed in Section 6.5, and Section 6.6 elaborates on the measurement and analyses of the variables. Section 6.7 presents the econometric tests used, while the computer programs utilised in the study are discussed in Section 6.8. Finally, Section 6.9 concludes.

6.2 Research Methodology

The purpose of research centres on the process of planning, executing and investigating in order to find answers to the research questions (Ghauri & Gronhaug, 2005). This process may be theoretical or practical in nature. Veal (2005, p. 3) defines research as 'a systematic, careful inquiry or examination to discover new information or relationship and to expand verify existing knowledge for some specified purpose'. The research procedure is systematic in that defining the objective, managing the data and communicating the findings occur within established frameworks and in accordance with existing guidelines (Williams, 2011). To achieve research objectives, researchers should use a particular methodology. Research methodology is defined by Leedy and

Ormrod (2005, p. 14) as 'the general approach the researcher takes in carrying out the research project'. Collis and Hussey (2003, p. 55) state that methodology refers to 'the overall approach to the research process, from the theoretical underpinning to the collection and analysis of data'.

Thus, research methodology is the roadmap that deals with the manner in which data will be collected, analysed and interpreted based on the purpose and target population (Gill & Johnson, 2002). Hussey and Hussey (1997) argue that researchers need to determine their research paradigm before constructing the research design. Saunders, Thornhill and Lewis (2007) report that the paradigm is a useful technique for understanding and explaining social phenomena. A paradigm of research is a general set of philosophical assumptions that defines the nature of possible research (Mingers & Gill, 1997).

6.3 Paradigms of Research

Paradigms can generally be classified either as positivist or interpretive paradigms (Henn, Weinstein & Foard, 2006). The positivist paradigm focuses on an objective description and exploitation, and researchers are seen as independent. The behaviour of individuals, groups or organisations under study is explained on the basis of the facts and observations—generally of a quantitative nature—that are gathered by the researcher. This approach is referred to as scientific, empiricist, quantitative or deductive (Veal, 2005).

This approach favours quantitative measuring instruments, including experiments, questionnaire surveys and content analysis. The research is highly structured, typically large scale and statistically based. The logic of the positivist research design (Henn, Weinstein & Foard, 2006) is based on the following premises: processes of cause and effect need to be identified to explain phenomena and to test a theory; knowledge should be based on what can be tested through observing tangible evidence; and researchers should use the scientific method, which emphasises control, standardisation and objectivity.

In contrast, the interpretive paradigm argues that human behaviour can be studied in the same way as non-human phenomena, and it emphasises the view that the world is socially constructed and subjective. It views researchers as part of the research process and relies on the people being studied to provide their own explanation of their situation or behaviour. This critical paradigm of research has various names, including interpretive, hermeneutic, qualitative, phenomenological, reflective, inductive, ethnographic and action research (Veal, 2005).

The current research aims to examine the relationship between corporate governance and firm performance. First, the study investigates the current state of corporate governance principles and explores the obstacles and enablers of governance in the UAE by eliciting the perceptions of various groups, including managers/CEOs, board members, members of audit committees, accountants and internal auditors. In addition, the study analyses corporate governance mechanisms based on secondary data. Finally, it attempts to establish the relationship between corporate governance and firm performance. That is, the study tests the relationship between corporate governance and firm performance in listed companies in the UAE. It is based on a positivist paradigm and therefore uses deductive reasoning and quantitative techniques because the positivist approach seeks facts or causes and effects of social phenomena (Hussey & Hussey, 1997). The reasoning is deductive because the hypotheses are derived first and the data will be collected later to confirm or negate the propositions. Bryman and Bell (2007) indicate that the deductive approach is related to quantitative research that follows objectivism, ontological realism and epistemological positivism. Gill and Johnson (2002) argue that the development of a conceptual and theoretical structure prior to its testing through empirical observation is needed in a deductive research method. As a result, quantitative data will be used as the evidence required for testing the hypotheses in this study.

The positivist approach enables the researcher to test the adopted theory against unique and large sample observations that make findings more generalised to the study population as a whole. The data of this research should be quantitative because rigour needs to be applied to ensure the accuracy of the measurement (Collis & Hussey, 2003). Consequently, the data that will be used for this study is from a questionnaire and secondary sources, which is the method used in much of the existing research on corporate governance and firm performance (Klein, 1998; Laing & Weir, 1999; Kiel & Nicholson, 2003; Haniffa & Hudaib, 2006; Sunityo-Shauki & Siregar, 2007; Dao, 2008; Cheung et al., 2011). This chapter will describe the selection of the samples, the sources of data, the procedures used for collecting the data and the method of data analysis.

6.4 Research Objectives

The main aim of this research is to investigate and explore perceptions concerning corporate governance practice in developing countries and the effect of corporate governance on firm performance from a theoretical and practical perspective. The general area of research is governance, and the specific focus here is the current state of corporate governance practice and its relationship with firm performance in a developing country, namely the UAE. The aim of the research is to improve governance practice in the UAE. To achieve this aim, the study objectives are as follows:

1. explore the nature and extent of the development of corporate governance practices in the context of the UAE business environment
2. identify corporate governance as understood in the UAE context
3. examine stakeholders' perceptions concerning corporate governance principles in listed companies in the UAE
4. identify possible obstacles to, and enablers of, the implementation of good corporate governance in the UAE
5. analyse corporate governance mechanisms employed in listed companies in the UAE and the extent to which they comply with corporate governance codes
6. determine the relationship between corporate governance practices and firm performance in listed companies in the UAE
7. develop a corporate governance model that is appropriate for the UAE, taking into account corporate governance principles and the interests of all stakeholders.

6.5 Data Collection

This section summarises the process of data collection, including the main data sources, namely the quantitative research method (questionnaire and secondary). According to Creswell (2003, p. 18), quantitative research 'employs strategies of inquiry such as experiments and surveys, and collects data on predetermined instruments that yield statistical data'. Quantitative research emphasises 'the measurement and analysis of causal relationships between variables' (Denzin & Lincoln, 1994, p. 4). That is, the quantitative approach develops research reliability through greater natural objectivity; in doing so, it raises the generalisability and representativeness of the findings (Hussey & Hussey, 1997; Sarantakos, 1998).

In line with the aim and research questions of the study, a positivist paradigm-related deductive approach has been adopted, as quantitative research methods are necessary in order to achieve the research objectives. Consequently, it is believed that quantitative research methods are best suited to testing the hypotheses deduced from the stakeholder theory and the agency theory utilised in this study. Quantitative research findings can be predictive, explanatory and confirming. One type of quantitative method is a survey technique, which is usually related to the deductive approach and provides information on what people conceive or report (Neuman, 2003).

6.6 Questionnaire Survey

A questionnaire is a list of carefully structured questions selected after considerable testing with a view to eliciting reliable responses from a chosen sample (Collis & Hussey, 2003). Sekaran (2003) similarly defines a questionnaire as a preformulated written set of questions to which respondents record their answers, usually on the basis of rather closely defined alternatives. That is, the value of the questionnaire method is that all of the information collected relates to research questions that will help the decision-maker address the current business problem (Zikmund, 2010). As a result, the questionnaire survey is the most frequently used method in the social science field. In the questionnaire method, all respondents are asked the same questions in the same circumstances (Li et al., 2000; Easterby-Smith, Thorpe & Jackson, 2008).

The reasons for using a questionnaire in this research are in line with the views of Foddy (1993) and Oppenheim (1992), as follows. First, it is the most common method of data collection in survey research because it assures the anonymity of respondents and enables them to respond more freely and at their convenience. This has a positive effect on the credibility of the research, as the data gathered are believed to be representative of the respondents' knowledge of the subject. Second, it is suitable for an individual researcher who has limited resources in terms of time and cost. Third, it can be distributed to large numbers of respondents, which lends greater credibility to the data collected.

According to Bryman (2004) and Oppenheim (1992), there are two types of questionnaire: self-administered and interviewer-administered. The self-administered questionnaire is divided into three types: the Internet-mediated questionnaire, the postal questionnaire and the hand-delivered and collected questionnaire. The interviewer-administered questionnaire is further divided into two types: the telephone questionnaire and the structured interview. Saunders, Thornhill and Lewis (2007) highlight that the choice of questionnaire is affected by many factors relating to the research questions and their objectives, as listed below:

- the characteristics of the study participants from whom the researcher wishes to gather data
- the significance of reaching a particular individual as a respondent
- the significance of ensuring that study participants' answers are not contaminated or distorted
- the size of the sample needed for research analysis, taking into consideration the probable response rate
- the nature of the questions that need to be asked by the researcher for the purpose of gathering data
- the number of questions that the researcher needs to ask in order to gather the data.

Bearing the aim of this study in mind, the self-administered questionnaire was employed for a number of reasons. It is more appropriate for UAE respondents, cheaper than other methods, easier to distribute, easier for respondents to complete and the anonymity aspect encourages respondents to complete the questionnaire, leading to an increased response rate. Finally, this type of questionnaire is utilised extensively in surveys, and most existing research on corporate governance has used this method (i.e., Hussian & Mallin, 2002; Solomon et al., 2003; Kaur & Mishra, 2010; Goodwin & Seow, 2002). Although self-administered questionnaires can be mediated via the Internet, post or hand-delivery and collection, Sekaran (2003) believes that hand-delivery and collection is the most suitable method when the investigation is confined to a local area.

Personally administered questionnaires have many advantages (Sekaran, 2003): the researcher can collect all completed responses within a short period and can clarify any ambiguity and doubts that respondents may have about the questions; the researcher also has the opportunity to introduce the research topic and motivate the respondents to give frank answers; distributing questionnaires to a large number of respondents is less expensive and time-consuming than interviews, and the questionnaire method does not require the same high level of skills as conducting interviews. As mentioned earlier, the questionnaire survey mainly answers research questions related to corporate governance practice. However, this research will also use secondary data to measure the variables of corporate governance mechanisms, as well as the firm performance variable.

The following section provides more detail regarding the study population and sample, and the questionnaire design in terms of the type of questions, the words used and the sequencing of questions and the content of the questionnaire, the pilot study, the validity of the research, the formulation of the CGI, and the reliability test. Descriptive and explanatory research generally uses questionnaires to conduct research based on attitudes and opinions concerning organisational practices (Saunders, Thornhill & Lewis, 2007). A survey questionnaire is considered the best technique for collecting data, as research in the area of corporate governance is very descriptive in nature (Alleyne, Howard & Greenidge, 2006; Paape, Sceffe & Snoep, 2003).

6.6.1 Study population and sample (questionnaire)

It is important to clearly define the population being surveyed and to ensure that the sample selected offers an accurate representation of the population (Thomas, 1996). Sekaran (2003, p. 256) defines a population as a ‘group of people, events, or things of interest that the researcher wishes to investigate’. The population of the current study consists of all 128 of the Emirates joint-stock companies listed on the DFM and the ADX. A sample must be selected that can be seen as representative after defining the populations intended for the research. Veal (2005) and Sekaran and Bougie (2010) report that some determinants affect decisions regarding the sample size in research, such as the research objective, the required level of precision in the results, the level of detail in the proposed analysis, the amount of variability in the population itself, the cost and time constraints, and the size of the population.

According to Punch (2005) sampling has been a vital topic in research methodology literature, and a sample model forms the basis of the statistical inference that is a key decision-making tool in quantitative research. This research uses a purposive sampling technique that has been employed in prior research on corporate governance in different countries (Anis, 2013; Fuzuli, Pahala & Murdayanti, 2013; Mariri & Chipunza, 2011; Nur’ainy et al., 2013) to select the listed companies to be sampled. This type of sample is one of the non-probability sampling techniques in research sampling design and is based on the specific purpose and appropriate characteristics required of samples (Zikmund, 2010). According to Neuman (2003), purposive sampling is appropriate when researchers have selected their sample and want to achieve a deep understanding of the research topic.

The standard criteria maintained was that all companies for which there was no annual report and corporate governance data available in 2010 and 2011, as well as foreign companies in the UAE, would be excluded from the current study sample for three reasons: the objective of the study is to investigate the current state of corporate governance in listed companies in the UAE, and the respondents were requested to offer their views of existing practices in their own company; firm performance was one of the variables in this research to be measured by annual reports; the questionnaire was distributed to, and collected from, companies by the researcher in person, and participants had to be available in the country; and foreign companies do not follow the UAE Code of Corporate Governance under the rules and regulations of the UAE. From the above criteria, the number in the sample is 80 listed companies, which were selected from a total population of 128 listed companies.

As mentioned earlier, the main aim of this study is to investigate the perceptions of stakeholders concerning the current state of the corporate governance of listed companies in the UAE. Thus, the study was designed to survey five different groups of stakeholders identified as respondents who could provide the required information for data collection in 80 of the listed companies. The stakeholders groups are: managers/CEOs, members of the board, audit committee members, internal auditors and accountants. The groups were involved in the process of corporate governance and financial operations in their own companies. Yassin, Ghanem and Rustom (2011) highlight that cooperation is required between the various elements of the system of corporate governance—the audit committee, internal auditors, executive management, financial management and the board of directors—in order to secure the operations of governance in a strong company.

The main reason for choosing these five groups was based on previous research in different countries that had identified these participants as the most relevant groups in relation to the issue of corporate governance (Goodwin & Seow, 2002; Wanyama, Burton & Helliar, 2009; Solomon et al., 2003; Okpara, 2011; Yassin, Ghanem & Rustom, 2011). The information about participants was collected from listed companies, and the probability sampling technique was used in the selection of the participants in this study. Probability sampling ensures that all members of the population have an equal chance of being selected, and it improves credibility and reliability and avoids social bias (Rosenthal et al., 2000; Robson, 2002; Veal, 2005). Therefore, five participants were selected from each company to participate in the survey, and the total of the random sample was 400 potential respondents.

6.6.2 Questionnaire design

Collis and Hussey (2003) outline the considerations and guidelines to be followed in the construction of questionnaires. For example, the questions must be asked in very simple and concise language, and the researcher should not place unrealistic demands on respondents' level of knowledge and education. The researcher should ensure that everybody can take the same meaning from each question, and each question should deal with only one dimension or aspect; that is, the questions should be formulated in such a way that there is no escape route in terms of the answer. Questions should be specific and not too general in nature so that the respondent does not give several answers. They should not be of a suggestive nature, directing the respondent towards a particular answer or opinion, and questions should be formulated in polite and soft language. The words and language used in the questions should be straightforward and free of any hidden meaning. Questions should be placed in the right order, with easy and positive questions asked first. The questionnaire should be formatted and printed in such a way that it does not look off-putting in terms of its length or complexity. It should be pre-tested on three to five respondents in terms of level of difficulty, willingness of the respondents to answer sensitive questions and the time it takes respondents to complete the questionnaire.

Saunders, Thornhill and Lewis (2007) describe conducting a questionnaire as the process of translating a concept into a measurable variable. The researcher in this case designed the questionnaire after reviewing corporate governance literature aimed at improving the quality of corporate governance practice as a means of enhancing firm performance in listed companies in the UAE. The aim of the questionnaire is to collect data that will be used to assess the implementation of corporate governance on the basis of the OECD Principles and the literature review.

6.6.2.1 Form of the questions

There have been numerous discussions regarding open versus closed questions in survey research (Gillham, 2008), and researchers sometimes disagree on how questions should be formed and structured in a questionnaire (Hussey & Hussey, 1997). Therefore, in constructing the questions, one of the most significant considerations for many researchers is whether to ask a question in an open or closed format (Bryman & Bell, 2007). The appropriateness of either open-ended or closed-ended questions is based on the following considerations, among others: the purpose for which a piece of information is to be used; the type of study population from which information is to be obtained; the proposed format for communicating the findings; and the socioeconomic background of the readership (Kumar, 2011). In addition, the advantages and disadvantages of open- or closed-ended questions should be taken into account when questionnaires are devised (Hussey & Hussey, 1997).

Open questions offer the advantages that respondents can give personal responses or opinions in their own words and feel comfortable about providing the information and expressing their opinions (Kumar, 2011). Another advantage of the open question is that respondents' answers are not influenced unduly by the interviewer or questionnaire, and verbatim replies from respondents can provide a rich source of varied material, which might have remained untapped if categories on a pre-coded list were used. At the same time, response rates for open questions can be very low because people are often too preoccupied or busy to write full-length answers (Veal, 2005). Further, such questions require more effort from respondents, they are costly and time-consuming, and they take time for the researcher to process. The coding and analysis of open questions is also more difficult (Oppenheim, 1992; Veal & Ticehurst, 2000). Another problem in using open questions is that respondents might not be willing to write a long answer; instead, they might decide to leave the question blank (Dawson, 2002).

In closed questions, a range of answers is set out in the questionnaire and respondents are asked to tick the appropriate boxes (Veal, 2005). According to Saunders, Thornhill and Lewis (2007), closed questions are usually quicker and easier to answer because they require minimal writing. This type of question is useful when a questionnaire is long or requires individual completion. In addition, answers from different respondents to closed questions can be easier to compare, easier to code and are usually easy to analyse because the range of answers is limited (Neuman, 1997). Conversely, one of the main disadvantages of closed questions is that the information they provide from participants lacks depth and variety (Kumar, 2011). Further, respondents whose desired answer is not among the answer choices may end up frustrated, while respondents with no opinion or insufficient knowledge may not answer the questions (Neuman, 1997). There is also a strong possibility of researcher bias in answer categories because the investigator may list only the response patterns that he or she is interested in (Oppenheim, 1992; Kumar, 2011).

The aim of the questionnaire survey in this research is to obtain perceptions on the current state of corporate governance in the UAE. Hence, to achieve the purpose of the research, the study generally uses closed questions for the questionnaire. Most of the questions for the study use a five-point Likert scale, which is used extensively in social science research (Saunders, Thornhill & Lewis, 2007), with the following values: 5 = strongly agree or strongly significant, 4 = agree or significant, 3 = neutral, 2 = disagree or insignificant and 1 = strongly disagree or strongly insignificant. However, it is important to note that this was the case with regards to all positive statements. The negative statements were scaled in reverse order (5 = strongly disagree, 4 = disagree, 3 = neutral, 2 = agree and 1 = strongly agree) (Robson, 2002). The Likert scale measures opinions, beliefs and attitudes by showing varying degrees of agreement with, or endorsement of, a statement (DeVellis, 2003). To overcome the disadvantages of this type of questionnaire, a comprehensive range of answers is listed to minimise the risk of biased responses. In addition, space for more information and comments is provided at the end of the questionnaire.

6.6.2.2 Words used in questions

Marked attention must be paid to developing clear, unambiguous and useful questions, and the wording of the questions is fundamental in developing the questionnaire. An essential element for researchers when designing questionnaires is to pay close attention to the words used and avoid questions that may cause annoyance, frustration, offence, embarrassment or sadness (Dawson, 2002). Likewise, the researcher should observe a number of principles, such as avoiding jargon, simplifying whenever possible, avoiding ambiguity, avoiding leading questions and asking only one question at a time (i.e., avoiding multi-purpose questions) (Veal, 2005).

Sekaran (2003) states that a range of factors relate to the words in questions, including the level of language sophistication, the type and form of questions asked, and the sequencing of the questions. Thus, in constructing the questionnaire for this survey, a checklist of factors is used for personal data sought, emphasising the provision of simple structures and words. On this basis, questions should be kept short and simple, should not contain any type of prestige bias, and should be indirect rather than direct in the case of very sensitive issues. For personal data, closed questions should be used and leading questions should be avoided.

6.6.2.3 Sequencing of the questions

The order of the questions is an essential component in constructing a questionnaire because it affects the interest and willingness of participants to respond, and it affects the quality of the information they provide (Kumar, 2011). For this reason, a questionnaire should flow in a logical and comfortable manner and adhere to a number of principles, such as starting with easy questions and leading in with relevant questions, but leaving sensitive questions until later (Veal, 2005). The questions may follow a logical sequence based on the aim of the research, or they may be asked in random order. In a questionnaire in which random questions are not used, the order of the questions should go from general questions to more particular questions, and from questions that are relatively easy to answer to more complex ones (Sekaran, 2003). In constructing this research questionnaire, the following guidelines regarding the question sequence were considered:

- start with simple themes and move on to more complex themes

- start with concrete questions and move on to abstract questions
- start with questions that the study participants will enjoy answering
- keep open-ended questions to a minimum and, wherever possible, place them towards the end of the questionnaire
- classify questions into sections or parts in order to facilitate the process of structuring the questionnaire and create a smooth flow
- make use of filter questions to ensure that questions are relevant to the study participants and, where possible, try to introduce a variety of question formats so the questionnaire remains interesting.

6.6.2.4 Content of the questionnaire

Many different types of questions can be used in research, including personal factual questions, factual questions on other topics, informant factual questions, questions about attitudes and beliefs, questions about normative standards and values, and questions about knowledge (Bryman & Bell, 2011). A copy of the questionnaire used in this study is provided in Appendix 5. The final questionnaire in this study is divided into the following parts.

1. Concept of corporate governance

This part of the questionnaire was designed to obtain respondents' perceptions of the concept of corporate governance in the UAE context. The first question elicited respondents' opinions regarding the definition of corporate governance by providing three definitions of the term. The second question focused on views from various study groups regarding the significance of corporate governance in the UAE.

2. Principles of corporate governance practice

This part of the questionnaire was designed to elicit respondents' opinions regarding the current corporate governance practice in the UAE. It is divided into five elements: rights of shareholders and key ownership functions, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and responsibilities of the board.

2.1 Rights of shareholders and key ownership functions

Respondents were asked to elicit their opinions regarding shareholders' rights and ownership functions: ownership transfer among shareholders is facilitated; shareholders have the right to participate in company profits; shareholders have the right to regularly obtain information related to the company; shareholders have the right to vote in general meetings; shareholders are able to vote in elections and remove members of the board of directors; shareholders are provided with adequate and timely information about company meetings; shareholders have the right to discuss the external auditor's report at the Annual General Meeting; details about the capital structure of the company are disclosed to shareholders; and shareholders have the right to be informed on decisions concerning fundamental corporate changes.

2.2 Equitable treatment of shareholders

This section investigates the equitable treatment of shareholders in the context of the UAE: all shareholders who are from the same class are treated equally; shareholders have the right to obtain information about voting rights before they purchase shares; processes and procedures for general shareholder meetings allow for the equitable treatment of all shareholders; minority shareholders are protected from insider trading; there are means to remove the obstacles of cross-border voting; and board members and key executives disclose material interests in any transaction or matter that directly affects the company.

2.3 Role of stakeholders in corporate governance

This section contains information about the role of stakeholders, including: stakeholders' rights that are established by law are respected by the company; performance-enhancing mechanisms for employee participation are permitted to develop; stakeholders have the opportunity to obtain effective redress for the violation of their rights; stakeholders have the right to obtain sufficient and reliable information on a timely basis; stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the board; and an effective corporate governance framework enforces creditor rights.

2.4 Disclosure and transparency

This section consists of information about disclosure and transparency: the financial and operating results of the company are disclosed; the objectives of the company are disclosed; major share ownership is disclosed; foreseeable risk factors are disclosed, remuneration of board members and key executives is disclosed; issues regarding employees and other stakeholders, such as programs for human resource development and training, are disclosed; an annual audit of the company is conducted by an independent auditor; information is prepared and disclosed in accordance with the International Accounting Standards; and channels are provided for the dissemination of information on a timely basis to relevant users.

2.5 Responsibilities of the board

This section deals with the responsibilities of the board: board members are expected to act in the best interests of the company and the shareholders; the board takes stakeholders' interests into account; the board monitors the effectiveness of the company's governance practices; the board of directors elects, monitors and replaces executives when necessary; the board monitors and manages potential conflicts of interest of management, board members and shareholders; the board supervises the process of disclosure and communication; board members are provided with accurate and relevant information about the company; the board has approved a strategic plan for the company; and board members are able to devote sufficient time to their responsibilities.

3. Obstacles to corporate governance

This section aims to elicit more details on possible obstacles that might affect corporate governance practice in the UAE, including: weak legal controls and law enforcement; culture of the UAE community; weak accounting and auditing profession; poor-quality accounting and finance education; weak infrastructures of financial institutions; lack of legal and regulatory systems that govern companies' activities; government interference in business activities; the state of the UAE economy; the costs of practicing good corporate governance outweigh the benefits; poor financial and non-financial disclosure; and a good relationship between the company and the external auditors.

4. Enablers that improve corporate governance

This part of the questionnaire endeavours to obtain respondents' opinions regarding the enabling factors that could improve corporate governance practice in companies. Enabling factors include: ensuring wide adoption of international accounting and auditing standards; using training and other means of support; developing incentive programs for compliance with the principles of corporate governance; establishing corporate governance education programs at universities; establishing an institute of directors for training, raising awareness and education for CEOs, directors and board members; enhancing professional accounting and auditing bodies; participating in international events, conferences, meetings and committees dealing with corporate governance; encouraging research into corporate governance in the UAE; learning from the experiences of other countries concerning corporate governance practice; and initiating regional corporate governance partnership programs with international organisations such as the OECD.

5. Demography information

This part of the questionnaire attempts to obtain demographic information from respondents (age, position, working experience, educational level and academic major). Demographic information helps to describe participants' (manager/CEO, board of directors, audit committee members, internal auditors and accountants) characteristics when the researcher is analysing the results of the research. Further, personal information and demographics are useful for the researcher to justify various perceptions among groups.

In general, the aim of the questionnaire survey in this study is to obtain perceptions on current corporate governance practices in the UAE. Hence, the questionnaire needs to be devised in such a way that it is specific enough to elicit answers to the questions, but general enough to ensure that respondents do not reveal any sensitive information. As mentioned earlier, closed-ended questions offer a selection of answers from which the respondent is asked to select one. For this reason, questions in this instrument are closed-ended and have been constructed according to the five-point Likert scale, as advocated by Bryman and Bell (2007), Hussey and Hussey (1997) and Zikmund (2000) for cases similar to the current study.

6.6.3 Pilot study and validity of the research

In social science research, emphasis is placed on piloting the questionnaire before its final distribution. The purpose of the pilot study is to enable researchers to examine questionnaire wording, sequencing and layout in addition to assessing fieldwork arrangements and training, and testing field workers, gaining familiarity with respondents, estimating response rates, estimating questionnaire completion time and testing analysis procedures (Veal, 2005). In effect, this means road testing the questionnaire in as many ways as possible before using it (Collis & Hussey, 2003). Salant and Dillman (1994) argue that although pre-testing a questionnaire is time-consuming, it is essential to ensure a quality questionnaire.

Stebbins (2001, p. 29) argues that 'the rise of quantitative research brought with it the need to pre-test measuring instruments and conduct pilot studies to iron out kinks in procedures and sharpen precision so the main study could proceed as flawlessly as possible'. The pilot of a questionnaire instrument should happen in advance of the field study, as it represents a significant step in ensuring the study's reliability and validity (Smith, 2011). Corbetta (2003) also emphasises that making changes to the questionnaire in advance is vital, and this is one of the benefits of thorough pilot testing, as it is more costly and time-consuming to adjust any part of the questionnaire when the researcher has already started the fieldwork.

The questionnaire in this research went through a number of developmental stages before final distribution. In the first stage, a draft of the questionnaire was improved by writing down and grouping all questions based on the OECD Principles of Corporate Governance (OECD, 2004), the UAE's Code of Corporate Governance and the literature review. This draft was discussed with the supervisor team and then distributed to selected academic staff in Australian universities with expertise in the area of corporate governance. In the second stage, the questionnaire was translated from English into Arabic by the researcher. A draft of the questionnaire was sent to academic staff in UAE universities with expertise in the area of research to check for grammar and to confirm the meaning in the Arabic language. In the third stage, the questionnaire was sent to experts in statistical technique. These three stages were intended to elicit the comments of the above experts, mainly regarding the wording, sequence and structure of the questionnaire.

Babbie (2010) suggests that a questionnaire should be distributed to the same audience as the target population to answer the final questionnaire, and that those participants should complete the questionnaire themselves rather than having the researcher read through it with them. Therefore, in the final stage of the pilot study, following the comments from the academics in Australia and the UAE, as well as the statistical experts, the revised questionnaire was sent to a further five groups: senior managers/CEOs, board members, audit committee members, accountants and internal auditors. The aim at this stage was to assess the suitability of the research tool for the task in question.

Bryman and Bell (2011) state that validity refers to whether the indicator that is developed to examine the concept actually measures it. Two types of measurement validity raise the most concern among researchers: content validity and construct validity (Churchill & Iacobucci, 2002). The questionnaire used in this study contains clear and direct questions; this is reflected in the pilot tests, indicating that the construct validity is acceptable. Moreover, the use of a five-point Likert scale in the questionnaire also contributes to improving the construct validity.

Along with the revised questionnaire, a cover letter explaining the nature and objectives of the research was sent to each participant in the pilot survey. The reviewers were requested to note their observations and then make recommendations regarding the questionnaire and comment on ways to develop it, as well as make proposals that could facilitate the analysis of the data. The piloting process took place in May and June 2012, and questionnaires were distributed to managers, members of the board, audit committee members, internal auditors and accountants. Abouserie (1992) argues that, to obtain useful results, it is necessary to utilise a reliable and valid questionnaire for the collection of the data. In this study, the validity of the questionnaire was ensured by practical professionals and experienced academics who participated in the pilot study, as discussed above. Moreover, particular efforts were made to achieve a high rate of response through: having a covering letter from the supervisor and researcher to accompany the questionnaire; assuring the respondents that their answers would remain confidential; and hand-delivering and collecting questionnaires.

6.6.4 Questionnaire distribution and collection

The questionnaire was distributed and collected between July and September 2012 to the participants in the research. As mentioned earlier, questionnaires were produced for five target groups to elicit their opinions. Particular efforts were made to minimise the problem of a low rate of response by: obtaining the information about listed companies from the SCA, the ADX and the DFM, which include the company name, email, contact number and company address; contacting the listed companies and briefing them on the study and questionnaire and arranging for visits; having a covering letter from the supervisor to accompany the questionnaire to inform the purpose of the survey and the importance of their responses; providing a letter from the researcher to explain the aim of the study and identify the researcher, asking for the questionnaire to be completed, explaining the nature and importance of the study; assuring respondents that their answers would remain confidential; and hand-delivering and collecting questionnaires and making a follow-up telephone call. Based on the above efforts, 160 usable questionnaires out of the 400 distributed questionnaires were collected, making a response rate of 40%. Table 6.1 shows the number of questionnaires distributed, the number of returned questionnaires, the response rate for each group and the overall response rate.

Table 6.1 Responses to the Questionnaire Survey for Each Group

Groups	Distributed questionnaires	Received questionnaires	Response rate (%)
Manger/CEO	80	21	26.3
Board members	80	25	31.5
Audit committee members	80	34	42.5
Accountant	80	42	52.5
Internal auditor	80	38	47.5
Total and overall response rate	400	160	40.0

6.6.5 Method of formulating the corporate governance index

The main purpose of developing a CGI was to measure the data using a quantitative method in order to allow further analysis, such as determining the relationship between corporate governance principles and firm performance. The CGI was calculated based on the information collected using a questionnaire taken from a selected sample of listed companies in the UAE. This study uses the CGI to measure corporate governance practice in the listed companies. The CGI includes 39 different evaluation criteria (see

Appendix 1) according to the OECD Principles of Corporate Governance (OECD, 2004). These criteria are then classified into five categories: nine items for shareholders' rights; six items for equitable treatment of shareholders; six items for role of stakeholders; nine items for disclosure and transparency; and nine items for responsibilities of the board of directors (OECD, 2004). As discussed in Section 6.6.2.1, five points are assigned to each question: 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree and 1 = strongly disagree.

The construction of the Index was straightforward. First, the 39 items were coded from 1 to 5 for each questionnaire depending on the perception of the response with regards to whether the firm had satisfactorily implemented corporate governance practice. Second, the researcher constructed a sub-index for each of the five corporate governance components, namely a shareholders' rights index, an equal treatment of shareholders index, a role of the stakeholder index, a disclosure and transparency index, and a board responsibility index. The five sub-indexes were created by calculating the total of the items in each sub-index for each participant. Third, the mean of the participants' responses for each company was determined. The source of the information index comprised the responses regarding corporate governance collected from those participating in the study. Finally, the CGI was calculated using the following formula:

CGI = (rights of shareholders + equal treatment of shareholders + role of the stakeholder + disclosure and transparency + board responsibility).

6.6.6 Reliability of the research

Reliability refers to the extent to which the index is without bias and ensures a consistent measurement across time and across the various items in the instrument (Sekaran & Bougie, 2010). That is, reliability is an indicator of a measure's internal consistency; a measure is reliable when the different items in the instrument show a similarly consistent result (Zikmund, 2010). Kumar (2011) points out that in social science, the research instrument is affected by factors such as the wording of questions, physical aspects, the respondent's mood, the interviewer's mood, the nature of the interaction and the regression effect of an instrument. Hence, there are three common methods for estimating reliability: the test–retest method, the split–half method and the alpha coefficient method (Frankfort-Nachmias & Nachmias, 2008).

Saunders, Thornhill and Lewis (2007) also note the following three approaches for assessing the reliability of the data: the test–retest method, Parallel forms reliability and the alpha coefficient. Test–retest is the instrument inferred from examined scores; the same test is administered twice to the same subjects within an interval of less than six months. Parallel forms reliability is the degree to which alternative forms of the same measure produce the same or a similar result when administered simultaneously or with a delay. Cronbach's alpha is the degree to which instrument items are homogeneous and reflect the same underlying construct (Cooper & Schindler, 2006). The alpha coefficient ranges from 0 to 1, and it is common practice to take 0.60 as the minimum acceptable alpha value. Smith et al. (2011) argue that a reliability coefficient in the order of 0.60 is acceptable, while De Vaus (2002) and Bryman and Bell (2011) suggest a minimum alpha value of 0.70 and 0.80, respectively, for reliability purposes. The alpha value is calculated based on the average correlation of items within a test if the items are standardised.

In this research, the reliability measure was used to focus on the internal consistency or internal homogeneity of the set of statements, and the corporate governance in the questionnaire was divided into four parts. In this study, due to practical difficulties in adopting the other three methods, the researcher decided to use the coefficient alpha score to measure the reliability of the survey questionnaire. Reliability tests were carried out on: the concept of corporate governance, corporate governance principles, barriers of corporate governance and enablers of the implementation of corporate governance. In addition, reliability tests were conducted for the index of corporate governance: rights of shareholders sub-index; equitable treatment of shareholders sub-index; roles of stakeholders sub-index; disclosure and transparency sub-index; and responsibility of the board sub-index. The findings of the reliability tests in this research are presented in Appendix 2.

6.6.7 Ethical considerations

Ethics in business research refers to 'a code of conduct or expected societal norm of behaviour while conducting research' (Sekaran, 2003, p. 17). Ethical issues should be given more attention at the early stage of the research process, as researchers have a moral responsibility to explain and answer participants' questions honestly and accurately (Ghauri & Gronhaug, 2005). Researchers should explain the study benefits and participants' rights and protections, and they should obtain informed consent. In addition, they should avoid unethical activities such as violating non-disclosure agreements, breaking participant confidentiality, misrepresenting results, deceiving people and avoiding legal liability, as the cornerstone of ethics is to ensure that nobody is harmed or suffers as a result of the research (Cooper, Schindler & Sun, 2006).

There are a number of key ethical issues to be considered during all phases of the research (Saunders, Thornhill & Lewis, 2007): the privacy of possible and actual respondents; participants' voluntary status and their right to withdraw partially or completely from the process at any time; consent and possible deception of participants; guaranteed confidentiality with respect to data provided by individuals or identifiable participants and their anonymity; reactions of participants to the methods used by researchers to collect data, including embarrassment, stress, discomfort, pain and harm; effects on participants regarding the manner in which their data are used, analysed and reported, particularly the avoidance of embarrassment, stress, discomfort, pain and harm; and the behaviour and objectivity of researchers.

The approval of the Human Research Ethics Committee of Victoria University was obtained to ensure that the rights, liberties and safety of the participants were preserved before the questionnaire was administered (see Appendix 7). This study addressed the ethical considerations raised, according to Victoria University's code of research. An information sheet, including the name of Victoria University and the name of the School of Accounting and Finance, was prepared to explain the purpose of the study and the ethical rules. A copy of the information sheet and consent form is provided in Appendix 6. This was given to each participant, and they were informed that participation was voluntary under the ethical rules. In addition, the results are only reported in aggregate form in order to avoid the identification of individual responses from participants. The questionnaire was accompanied by a covering letter that explained the aim of the study and identified the researcher, asked for the questionnaire to be completed, explained the nature and importance of the study, and assured participants that their responses would be treated in confidence.

6.7 Data Collection (Secondary Data)

Secondary data are useful for improving understanding and explaining the research problem in addition to providing more information to solve the problem (Ghauri & Gronhaug, 2005). The advantages of using secondary data sources are savings in the time and cost of acquiring information, fewer resource requirements, the provision of comparative and contextual data, unforeseen discoveries resulting from using suitable methods, and relative ease of access (Sekaran & Bougi, 2010; Saunders, Thornhill & Lewis, 2007). There are several sources of secondary data, including books, journal articles, media, annual reports of companies, online data sources such as webpages of firms, government organisations and catalogues, census data, statistical abstracts and databases (Veal, 2005; Sekaran, 2003).

Ghauri and Gronhaug (2005) suggest that secondary data is an essential method and that there is no need to collect primary data if secondary data are available to answer the research questions. Therefore, this research used secondary data to measure corporate governance mechanisms and firm performance. Secondary data measure four corporate governance mechanisms as well as ROE, ROA and Tobin's Q. Corporate governance mechanism variables and firm performance information were collected from annual reports and Emirates stock market websites. For the purpose of this study, data were collected for the period 2010–2011. This period was chosen to test the relationship between governance and firm performance because it reflects the corporate governance practices of firms after listed companies in the UAE were obliged to apply the rules of corporate governance in 2010, which means that they had their corporate governance information prepared.

This section discusses the method of data collection and types of data that were collected to conduct the study. The study determines the relationship between corporate governance and the firm performance of listed companies in the UAE. The sources of secondary data were collected from the DFM, ADX and ES&CMA websites, annual reports, as well as from Emirates Stock Exchange publications.

The secondary data include the following independent variables: board size (number of directors), leadership (i.e., whether the chairperson and CEO roles are held by one person or two people), composition of the board (number of non-executive directors) and audit board independents (number of independent directors on the audit committee). The dependent variables in terms of firm performance are: ROE, ROA and Tobin's Q. The data on company size, which include total assets and leverage measured by total liabilities to equity, were also collected from the annual reports of listed companies in the UAE.

6.7.1 Sample selection criteria (secondary data)

The aim of the study is to investigate corporate governance practices in listed companies in the UAE, as well as their effect on firm performance and the extent of the adoption of corporate governance practices in the listed companies for the period 2010–2011. The sample size of the study consists of the Emirates joint stock listed for 80 of 128 companies, including banks, insurance, services and industry companies on the DFM and the ADX. However, the study sample was subject to the following criteria.

First, the study covers the financial years 2010 and 2011. The rationale for using this as the study period is summarised in the following points: (a) this study uses the UAE Corporate Governance Code 2007 as a guide for corporate governance mechanism variables (the code has been reformed since 2009); (b) the implementation of best practice in terms of corporate governance mechanisms was embarked on in 2010; and (c) the financial crisis experienced by the UAE Stock Exchange was in 2008. Second, foreign companies were excluded from the research study because they are not obliged to report their financial statements or follow the UAE Code of Corporate Governance under the rules and regulations of the UAE. Third, companies for which no annual report was available, as well as companies with corporate governance data that did not originate in the UAE, were excluded from the current study. Fourth, secondary data were collected for the same companies that were used to collect data in the survey.

6.8 Conceptualisation Measurement Analyses of the Variables and Model Specifications

This section presents the conceptualisation, measurement and analyses of the variables used in corporate governance and firm performance. In the current study, the first model tests the relationship between the corporate governance principles index and firm performance. The second model tests the relationship between corporate governance mechanisms and firm performance. The independent variables are the corporate governance principles index in the first model and the corporate governance mechanisms in the second model, as suggested. The dependent variable is firm performance in both models. In addition to the variables that are used to hypotheses the relationships, a number of the control variables described in the existing literature are important in determining firm performance and are also considered in this study, such as firm size and leverage. The variables used to operationalise the construct's two empirical models are described below.

6.8.1 Measurement of the independent variables and model specifications

The literature review chapter discussed in depth the role of corporate governance principles and corporate governance mechanisms in firm performance. In addition, it presented a conceptual framework for the role of independent variables (corporate governance principles and mechanisms) on improving firm performance and developing hypotheses in a theoretical way. This section presents the measures of independent variables, including corporate governance principles and mechanisms that have been derived from the OECD Principles of Corporate Governance and the UAE Code of Corporate Governance. It also obtains general consensus as proxies and presents model specifications. The rationale behind the selection of these variables is that there is consensus in the corporate governance literature that they express the role of corporate governance principles and mechanisms in influencing firm performance. This study contains two models for examining the research hypotheses regarding the questionnaire and the secondary data. Firm performance is a dependent variable in each model.

Corporate governance principles index

Corporate governance principles are measured using a CGI, which has been constructed to measure the OECD Principles of Corporate Governance: rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and board responsibilities (OECD, 2004). As mentioned in Chapter 5, the implementation of corporate governance principles has a positive influence on firm performance, as supported by the stakeholder theory.

Board size

Board size refers to the number of directors on the board, and it is an important variable in the study of the relationship between corporate governance and firm performance.

This variable is commonly used in the literature to establish the relationship between corporate governance and firm performance by counting the number of directors in a firm, as explained by Chaganti, Mahajan and Sharma (1985), Pearce and Zahra (1992), Kiel and Nicholson (2003), Bozeman and Sarewitz (2005), Shakir (2008) and Lawal (2012). The same methodology is used to construct the variable in the current study. As mentioned in Chapter 5, a negative relationship between a large board and the performance of a firm supports the agency theory.

Leadership structure

The board leadership structure is widely used as a dummy variable in literature concerning corporate governance and the performance of a firm (Jackling & Johl, 2009; Ujunwa, 2012; Elsayed, 2007; Mashayekhi & Bazaz, 2008; Haniffa & Hudaib, 2006; Lam & Lee, 2008; Yusoff & Alhaji, 2012). In the current study, leadership structure is represented by a dummy variable. If the roles are occupied by two people, the variable will be classified as separate leadership and will be coded '1'. The value of the variable is '0' if one person holds both roles. The division of the CEO and chairperson roles is important because it enables the board to carry out its duties more effectively. This implies that the separation of the two roles is useful to firm performance, which is supported by the agency theory as discussed in Chapter 5.

Board composition

Board composition refers to the proportion of non-executive directors among the total number of members on the firm board. The existing literature on corporate governance widely uses this methodology to operationalise board composition (Dalton et al., 1998; Laing & Weir, 1999; Kiel & Nicholson, 2003; Leng, 2004; Heenetigala & Armstrong, 2011). In this research, board composition is defined as the number of non-executive directors versus the total number of directors on the board, and this value will also be used in the study. As discussed in Chapter 5, a positive relationship between the non-executive directors and the performance of a firm is supported by the agency theory.

Audit committee independence

The literature on corporate governance widely uses the percentage of independent members in relation to the total number of audit committee members in the firm to operationalise audit committee independence (Klein, 1998; Chan & Li, 2008; Al-Matari et al., 2012; Ghabayen, 2012; Triki & Bouaziz, 2012; Hamdan, Sarea & Reyad, 2013). Therefore, in the current study, the audit committee independence value is defined as the number of independent members divided by the total number of audit committee members. Audit committee independence may reduce information asymmetry problems and monitor management effectively. As mentioned in Chapter 5, a positive relationship between audit committee independence and firm performance is supported by the agency theory.

First model specifications

The first model aims to investigate the effect of corporate governance principles on firm performance measurement. As mentioned in this chapter, corporate governance principles were measured based on the OECD Principles of Corporate Governance, and all measures of independent variables are derived from these Principles. This method has been widely used in the existing literature (e.g., Li & Tang, 2007; Dao, 2008; Sunityo-Shauki & Siregar, 2007; Kalezić, 2012; Cheung et al., 2011). Table 6.1 presents definitions of the independent variables and their measures for the first model.

$$\textbf{Firm performance} = \boldsymbol{\beta 0} + \boldsymbol{\beta 1}\,(\textbf{CGI}) + \boldsymbol{\beta 2}\,(\textbf{SIZE}) + \boldsymbol{\beta 3}\,(\textbf{LEVG}) + \boldsymbol{\varepsilon i}$$

Table 6.2 Definition and Measures for Independent Variables for the First Model

Symbol	Variable name	Descriptions and measures
CGI	Corporate governance principles index	Rights of shareholders Equitable treatment of shareholders Role of stakeholders in corporate governance Disclosure and transparency Board responsibilities

Second model specifications

The second model aims to investigate the effect of corporate governance mechanisms on firm performance measurement. As shown in the second model, firm size and leverage are used again as an important control variable that should be taken into account for each model. In the second model, four corporate governance mechanisms were used: board size, leadership structure, board composition and audit committee independence. Therefore, details for all variables in the second model and their measures are presented below:

$$\textbf{Firm performance} = \boldsymbol{\beta}\mathbf{0} + \boldsymbol{\beta}\mathbf{1}\,(\mathbf{BSIZE}) + \boldsymbol{\beta}\mathbf{2}\,(\mathbf{LDS}) + \boldsymbol{\beta}\mathbf{3}\,(\mathbf{COMP}) + \boldsymbol{\beta}\mathbf{4}\,(\mathbf{ACINDEP}) + \boldsymbol{\beta}\mathbf{5}\,(\mathbf{SIZE}) + \boldsymbol{\beta}\mathbf{6}\,(\mathbf{LEVG}) + \boldsymbol{\varepsilon}\mathbf{i}$$

Table 6.3 Definition and Measures for Independent Variables for the Second Model

Symbol	Variable name	Descriptions and measures
BSIZE	Board size	Total number of members on the board
LDS	Separate leadership	Dummy variables 0 for combined leadership and 1 for separate leadership
COMP	Board composition	Non-executive directors to number of directors
ACINDEP	Audit committees independence	Ratio of independent directors in the audit committee to total committee members

6.8.2 Measurements of the dependent variable (firm performance)

Previous literature reviews have shed light on the profitability and value of a firm as a measure (proxy) of firm performance by providing prior key research that presents the relationship between corporate governance practice and firm performance, along with more recent suggested amendments for this proxy. Generally, a considerable number of recent studies on firm performance using corporate governance practices have applied mainly accounting-based performance measures, such as ROE and ROA, in addition to market-based measures, such as Tobin's Q, as proxies for firm performance (Babatunde & Olaniran, 2009; Haat, Rahman & Mahenthiran, 2008; Imam & Malik, 2007; Heenetigala & Armstrong, 2011; Bebczuk, 2005; Sengur, 2011; Lam & Lee, 2008). In line with empirical studies from recent literature on firm performance, this study will use the terms of the profitability and value of a firm to measure firm performance. As the aim of the study is to examine the effect of corporate governance practice on firm performance, this research implements the measures that are widely used for listed companies—namely, ROE, ROA and Tobin's Q—which are also considered proxies for accounting return and market return in this study.

Tobin's Q

Tobin's Q measures performance in terms of company valuation; it is identified as market capitalisation plus the total company debt divided by total assets (Weir, Laing & McKnight, 2002). Kohl and Schaefers (2012) describe Tobin's Q as the current market value of the company divided by the replacement cost of the assets, which is measured by the book value of the firm's assets. Market value is calculated in various ways by different researchers (Bhagat & Jefferis, 2005). Tobin's Q is the ratio of the firm's market value to its book value. The firm's market value is calculated as the book value of assets minus the book value of equity plus the market value of equity (Belkhir, 2009). It has also been calculated as the market value of assets divided by the book value of assets (Ehikioya, 2009).

A firm's Tobin's Q is greater if it is more than 1; this Tobin's Q value implies that the firm is implementing a growth strategy and gives investors a positive perception regarding the firm's growth opportunities. That is, a ratio greater than 1 indicates that the market value is higher than the company's recorded assets. Hence, a higher Tobin's Q encourages companies to invest more capital, as the value of the company is more than the price they paid. In contrast, a ratio below 1 gives investors a perception of negative growth expectations and indicates that the firm should not reinvest in the same stock of assets. A good or improving investment opportunity is regarded as an indicator that the firm is exhibiting, or has embedded, good corporate governance principles and structures (Evans, Evans & Loh, 2002). In summary, Tobin's Q compares the ratio of a company's market value and the value of a company's assets.

The primary measure of firm value is Tobin's Q; its main benefit is that it reflects the value of intangible factors, such as management competence, growth opportunities and corporate governance, compared to other measures (Kohl & Schaefers, 2012). Consequently, the higher the Q value, the more effective the corporate governance and the better the market perception of the company. A lower Q value suggests less effective corporate governance and greater managerial discretion (Weir, Laing & McKnight, 2002):

$$\text{Tobin's Q} = \frac{\text{Market capitalisation} + \text{Total assets} - \text{shareholders' funds}}{\text{Total assets}}$$

Return on equity

The ROE focuses just on the equity component of the investment, and it specifies the earnings left over for equity investors after debt service costs have been factored into the equity invested in the asset (Damodaran, 2007). ROE is the amount of net income returned as a percentage of shareholders' equity, and it measures a corporation's profitability by revealing how much profit a company creates with the money that shareholders have invested (Khatab et al., 2011). Thus, a higher ratio indicates a higher return. This measure is expected to indicate a positive association between corporate governance and firm performance. ROE is calculated as the net income divided by total equity:

$$\text{ROE} = \frac{\text{Net income}}{\text{Total equity}}$$

Return on assets

ROA shows how proficient a company's assets are in generating profits. It indicates the effectiveness of the company's assets in increasing shareholders' economic interests (Haniffa & Hudaib, 2006). That is, ROA is measured by net income over total assets at the end of the year, and it is an indicator of how profitable a company is relative to its total assets. ROA gives an idea regarding how efficient management is at using its assets to generate earnings. It is calculated by dividing a company's annual earnings by its total assets and is displayed as a percentage; in this way, ROA shows the efficiency of management in using its assets to generate earnings (Khatab et al., 2011). ROA is calculated as follows:

$$\text{ROA} = \frac{\text{Net income}}{\text{Total assets}}$$

6.8.3 Control variables and their measurements

In addition to the independent variables mentioned previously, a number of control variables are employed in this research to control for firms' characteristics that may affect firm performance. These variables are considered fundamental for ensuring that the tests concentrate more accurately on the differences created by variations in corporate governance. The current study aims to investigate whether there is a relationship between both corporate governance principles and corporate governance mechanisms and the enhancing of firm performance. Thus, it is important that factors affecting firm performance should also be controlled. The discussion in the previous chapter shows that firm size and leverage variables are frequently used as control variables.

Firm size: This control variable is measured as log10 of the company's total assets and is extensively used as a controlling measure to control the relationship between corporate governance and firm performance (Himmelberg, Hubbard & Palia, 1999; Schmidt, 2003; Lam & Lee, 2008; Tornyeva & Wereko, 2012; Rouf, 2011).

Leverage: In previous research (Khanchel El Mehdi, 2007; Ehikioya, 2009; Mohamad & Sulong, 2010), this control variable has been considered a controlling factor for the performance of the firm. For this reason, total liabilities were divided by total assets in order to measure the leverage of the firm in the present study (Alsaeed, 2006; Rashid et al., 2010; Al-Haddad, Alzurqan & Al-Sufy, 2011; Ibrahim & Samad, 2011).

6.9 Data Analysis

Data obtained from any research needs to be analysed and interpreted for it to be useful in meeting research objectives and answering research questions (Saunders, Thornhill & Lewis, 2007). The choice of data analysis depends on various aspects such as the type of variable, the nature of the variable, the shape of the distribution of a variable and the study design adopted to collect information about the variable. Statistical methods can be classified into two broad categories: descriptive and inferential statistics (Singh, 2007).

Descriptive statistics basically transform the data in a manner that describes fundamental characteristics and summarises or explains a given set of data, whereas inferential statistics utilise statistics computed from a sample to generalise about the population (Zikmund, 2010). According to Oppenheim (1992), different statistical tools are used for different purposes depending on the nature of the data. While the earlier sections of this chapter illustrated various methods of data collection, this section lists the statistical tests used to report the survey responses, secondary data and to examine the relationship between corporate governance and firm performance.

6.9.1 Analysis of the questionnaire survey data

The main purpose of the questionnaire in this research was to investigate the perceptions of different stakeholder groups in listed companies in the UAE regarding information concerning corporate governance. Consequently, the main statistical technique to be applied in this part of the research was descriptive statistics and to carry out non-parametric tests that are appropriate to the research to facilitate the examination of differences between stakeholder groups.

The descriptive statistics of data consist of frequencies and percentages for responses and overall mean scores, standard deviations and rankings for respondents according to the level of agreement in each group of questions. Further, a mean group is utilised in order to provide an understanding of respondents' perceptions regarding different questions. The questionnaire in this study utilises a five-point Likert scale ('strongly disagree', 'disagree', 'neutral', 'agree', 'strongly agree') in most of the questions to measure the average mean of different groups of perceptions. Robson (2011, p. 304) argues that 'Weights of 1, 2, 3, 4, and 5 are assigned to these alternatives, with the direction of weighting depending on whether the statement is positive or negative (e.g., 5 for a 'strongly agree' with a positive statement, and 'strongly disagree' with a negative statement'. Such a ranking order is particularly important for this study because it indicates respondents. This technique can help the researcher describe the characteristics or average scores and the variability of scores in the sample (Hair et al., 1998; Zikmund, 2000; Veal & Ticehurst, 2000). The current study uses descriptive statistical measures (such as means, frequency distribution, percentage, rank and standard deviation) to analyse the current state of corporate governance in the UAE.

There are two groups of statistical techniques: parametric and non-parametric. Non-parametric techniques are considered distribution-free, meaning they do not involve any assumptions about the distribution of the population from which the sample of dependent variable measures is drawn. The use of parametric tests is said to be appropriate when the following assumptions are adhered to (Cooper, Schindler & Sun, 2006; Saunders, Thornhill & Lewis, 2007): the selection of any one case for the sample should not affect the probability of any other case included in the same sample; the data cases should be drawn from a normally distributed population; the population from any data cases represented should have equal variance; the data used should be quantifiable.

In contrast, non-parametric techniques are used with frequency data (Foster, Barkus & Yavorsky, 2006). Newbold, Carlson and Thorne (2007) suggest that non-parametric testing is more suitable for the questionnaire survey because the data involved are mainly nominal and ordinal, with no assumption of population normality. In general, non-parametric tests have a number of advantages, which Siegel and Castellan (1988) summarise in the following way. Non-parametric tests are suitable when the sample size is small, and such tests typically make fewer assumptions. Non-parametric tests are available to analyse data that are inherently in ranks and data with seemingly numerical scores that have the strength of ranks. The tests are suitable for treating samples comprising observations from different populations. Non-parametric statistical tests are easier to apply, and their interpretation is more direct than the interpretation of parametric tests.

Kruskal–Wallis is a non-parametric test that will be adopted to test the differences between respondents' perceptions (manager or CEO, members of the board, audit committee members, internal auditors and accountants). It is a test of one-way, between-group analysis of variance that allows a comparison of three or more groups (Pallant, 2001), and it is used to test several independent samples. Consequently, in the present study, the Kruskal–Wallis test is used to establish any differences in average responses across the five groups in their answers to each question. When the result of the Kruskal–Wallis test is significant, it indicates that at least one of the five groups in the current study is different from at least one of the others. In this study, the Kruskal–Wallis test has been conducted at the 95% level of confidence (Curwin & Slater, 2008; Silver, 1997).

The Mann–Whitney test is useful for comparing two sample means on a continuous measure to specify whether two population means differ significantly. This technique is used to test the difference between two independent groups that may be of different sizes (Curwin & Slater, 2008). In this study, the Mann–Whitney test is used to verify which pairs of group averages are significantly different. To identify the differing group, the Mann–Whitney test compared 10 pairs of the five groups (1&2, 1&3, 1&4, 1&5, 2&3, 2&4, 2&5, 3&4, 3&5, 4&5).

6.9.2 Analysis of secondary data

This section aims to show the statistical methods adopted for the secondary data analysis. As previously discussed, the first statistical techniques applied in this part of the research were descriptive statistics, which comprise the analysis of the overall mean scores, standard deviation, median, minimum, maximum, skewness and kurtosis for each individual variable. The mean, median and standard deviation measure the central tendency of the variable (Veal, 2005). The skewness and kurtosis values explain the shape of the data distribution. In particular, skewness measures the symmetry of distribution, while kurtosis measures the peakedness or flatness of the distribution (height), as compared to the normal distribution (Field, 2009).

6.9.3 Regression analyses used in determining the relationship between corporate governance and firm performance

Regression involves correlations, which are concerned with the relationship between pairs of variables; the type of data determines the appropriate correlation to use (Foster, Barkus & Yavorsky, 2006). Simple regression analysis is employed in a situation where one independent variable is hypothesised to affect one dependent variable. Multiple regression analysis involves using more than one independent variable to explain variance in the dependent variable, and this is a multivariate technique often used in business research (Sekaran & Bougie, 2010). To investigate the relationship between corporate governance and firm performance in the UAE, two multiple regression models are derived using the questionnaire survey and secondary data. In the first model, a corporate governance principle is used as an independent variable, while firm performance is a dependent variable. In the second model, corporate governance mechanisms (board size, leadership structure, board composition and audit committee independence) are independent variables, while firm performance is a dependent variable.

Most of the multivariate regression analyses in the existing literature use an OLS regression to examine the relationship between a single dependent variable and several independent variables (predictors). However, Gujarati (2003) and Hair et al., (2010) report that there are fundamental assumptions to be fulfilled in order for the OLS regression model (parametric tests) to be valid. Therefore, this study applies the skewness–kurtosis test to verify the normality assumption. In corporate governance research, the normality assumption is rejected if the results of skewness and kurtosis are greater than 1.0 or less than -1.0 (Mohamad & Sulong, 2010). The results of the skewness–kurtosis test find that most data are not normally distributed, as presented in Chapter 8.

In this study, Pearson and Spearman's correlation analyses are used as a fundamental test to measure the relationship between the variables and the strength of their association (Pallant, 2001). The degree of linear association between two variables ranges from +1 to -1, where a correlation of ±1 means that there is a linear relationship between the variables (Field, 2009). This research also uses the variance inflation factor (VIF) and the tolerance value tests to verify multicollinearity. Numerous authors, such as Kennedy (2008) and Field (2009), highlight that a VIF of more than 10 points and a tolerance value of less than 0.2 points rules out harmful multicollinearity. The results from the two tests mentioned above indicate that there is no harmful correlation between variables, as presented in Chapter 8. In terms of heteroskedasticity, this study uses Breusch–Pagan/Cook–Wesberg tests to explore the variance between variables, and the findings indicate that the data suffer from heteroskedasticity. As seen in the previous tests, the data have normality and heteroskedasticity issues in the first and second models, as presented in Chapter 8 and Appendix 3.

Given the above discussion, the data in this study do not meet the conditions required for parametric tests, mainly in terms of normality and heteroskedasticity. Consequently, the first model of the study is to investigate the relationship between corporate governance principles and firm performance using cross-sectional OLS with the robust standard error option. Robust standard error can adjust the OLS parametric test to fit with non-parametric data, as shown by the descriptive statistics in Chapter 8, indicating that the study's data are not normally distributed. The second model of research is to investigate the relationship between corporate governance mechanisms and firm performance based on panel data. The Hausman (1978) test is used in this research to make the choice between the two approaches (i.e., fixed-effect and random-effect estimation).

The Hausman specification test conducts the correlation between the x variables and the individual random effect εi. It also checks for strict exogeneity. If no correlation is found, random effects should be employed, but if correlation exists, fixed-effects should be employed (McKnight & Weir, 2009; Park, 2005). The result of this test decides which method—fixed-effect or random-effect—would best suit the research. Thus, in the current study, following previous corporate governance research (Beiner et al., 2006; Bhagat & Bolton, 2008; McKnight & Weir, 2009; Ganiyu1 & Abiodun, 2012), the Hausman test is used to check this assumption and to investigate the appropriate estimation to use. In this study, the results of the Hausman test are insignificant: Prob>chi2 is higher than 5%, which shows that the assumptions for the fixed-effect estimation were violated (see Appendix 4). The second model of research used random-effect estimation with robust standard error to investigate the relationship between corporate governance mechanisms and firm performance.

Additionally, in the second model, a pooled OLS regression is applied in comparison to the panel regression, as it deals with all observations as one unit with the same intercept and the same error distribution. The standard error robust regression test is used, as the data are not normally distributed, as discussed in Chapter 8. This pooled OLS regression is undertaken to further test the research hypotheses and attest the reliability of the main GLS regression results. The value of the significance level ($p < 0.10$, $p < 0.05$ and $p < 0.01$) is also used to accept or reject the alternative hypotheses, which establish a relationship between corporate governance and firm performance in listed companies in the UAE.

6.10 Statistical Packages Used in the Current Study

The statistical package SPSS version 21 is used to perform the statistical analyses, including descriptive statistics, Pearson and Spearman correlations and non-parametric tests (Kruskal–Wallis and Mann–Whitney). In addition, OLS and GLS multiple regression tests are performed with the help of the statistical package Stata 13. Finally, sensitivity analysis using pooled OLS regression with robust standard error is carried out to check sensitivity.

6.11 Conclusion

This chapter began with a discussion on the research methodology and research paradigm. The adopted methodology was justified by positivist research. A deductive approach to examining the theory was used for the study. According to this methodology, the study has adopted a quantitative method (questionnaire and secondary data). The chapter presented details about two of the instruments employed in the research in terms of design, sample selection criteria, analysis procedures and the measurement process. The development of the CGI and the reliability and validity were also described. Further, with this methodology, the statistical techniques for analysing the questionnaire and secondary data include descriptive analysis, parametric and non-parametric analysis, and correlation analysis. In addition, the quantitative corporate governance data and the firm performance information were then analysed using two econometric models to test the relationship between corporate governance variables and firm performance in the listed companies. In Chapters 7 and 8, the data are analysed and interpreted using this research procedure.

Chapter 7: Questionnaire Survey Results

7.1 Introduction

This chapter presents the research findings derived from the questionnaire employed to answer the research questions of this study. SPSS was used to analyse the survey data. The questionnaire was distributed to the following groups: managers/CEOs, board members, audit committee members, accountants and internal auditors. The design and implementation of the questionnaire was detailed in Chapter 6. As the objective is to provide the overall results, this chapter is organised as follows. Section 7.2 provides descriptive analysis of general aspects of the respondents, particularly in terms of their background. Section 7.3 describes the results of the questionnaire with respect to the concept of corporate governance. Section 7.4 offers the results of questions concerning corporate governance principles. Section 7.5 shows possible barriers to the implementation of corporate governance. Section 7.7 reveals the possible enablers for the implementation of corporate governance. Section 7.8 provides the concluding discussion.

7.2 Background of the Respondents

This section presents information based on demographic characteristics gathered from the survey administered to listed companies. The distribution of responses to the questionnaire survey is presented according to the demographic profile for age, job position, education background, academic discipline and work experience.

Age

Table 7.1 illustrates the distribution of respondents based on age. The results show that 13.1% of those surveyed were less than 30 years old, while 22.5% and 33.7% of the respondents were aged 31–40 and 41–50 years old, respectively. More than one-quarter (26.9%) of respondents were aged 51–60 and 3.8% were over 60 years old. Overall, 86.9% were at least 31 years old, 64.4% were more than 40 years old, and one-third of the participants were more than 50 years old. These results are consistent with expectations because people who work at top management (CEOs and board members) usually acquire their jobs after attaining many years of experience.

Table 7.1 Distribution of Frequency and Percentages of the Age of Respondents

Age group	Frequency	Percentage
Less than 30 years	21	13.1
31–40 years	36	22.5
41–50 years	54	33.7
51–60 years	43	26.9
More than 60 years	6	3.8
Total	160	100

Job position

Table 7.2 shows the distribution of the respondents by job position. The lowest percentage is that of the managers (13.1%), followed by members of the board (15.6%) and audit committee members (21.3%). The percentages for accountants and internal auditors were 26.3% and 23.8%, respectively. In general, top management (managers and board members) comprised about 30% of the respondents, while 70% were from the audit committee, finance departments and internal auditor department.

Table 7.2 Distribution of Frequency and Percentages of Job of Respondents

Position	Frequency	Percentage
CEO	21	13.1
Board member	25	15.6
Audit committee member	34	21.3
Accountant	42	26.2
Internal auditor	38	23.8
Total	160	100

Education

Table 7.3 presents the highest academic qualification for the five groups of respondents. The majority (92.5%) of participants had completed their bachelor’s degree or higher. Six out of 10 (61.2%) participants had a bachelor’s degree, 26.9% had a master’s degree and 4.4% had a PhD. Only 7.5% had a diploma as their highest qualification. This reflects the high education level of the survey participants.

Table 7.3 Distribution of Frequency and Percentages of Educational Qualification of Respondents

Education	Frequency	Percentage
PhD	7	4.4
Master	43	26.9
Bachelor	98	61.2
Diploma	12	7.5
Total	160	100

Academic discipline

Table 7.4 shows the distribution of the participants based on five academic disciplines. More than half (54.3%) of the participants were from the accounting field, one-fifth (20%) were from management, 14.4% were from finance and 4.4% were from economics. Only 6.9% of the respondents were from other major disciplines such as law, engineering, political science and social science. This means that most (93.1%) academic qualifications taken by the respondents were in the business area.

Table 7.4 Distribution of Frequency and Percentages of Academic Background of Respondents

Discipline	Frequency	Percentage
Accounting	87	54.3
Finance	23	14.4
Management	32	20
Economics	7	4.4
Other	11	6.9
Total	160	100

Work experience

Table 7.5 shows that 16.8% of the respondents had less than five years of work experience in the field. Almost one-third (28.8%) had 5–10 years of work experience. Those with work experience of 11–15 years comprised 31.9% of the sample, while respondents with 16–20 years and more than 20 years of work experience comprised 12.5% and 10% of the sample, respectively. More than eight out of 10 (83.2%) had at least five years of work experience, while half had more than 10 years of experience, and more than one-fifth of participants had at least 16 years of experience.

Table 7.5 Distribution of Frequency and Percentages of Experience of Respondents

Experience	Frequency	Percentage
Less than five years	27	16.8
5–10 years	46	28.8
11–15 years	51	31.9
16–20 years	20	12.5
More than 20 years	16	10
Total	160	100

7.3 Concept of Corporate Governance

In this section, the investigation of stakeholders' perceptions of the concept of corporate governance in the UAE was divided into two. The first part determined the respondents' attitudes towards three definitions of corporate governance. The study participants were given a list of possible definitions of corporate governance, which were constructed from the contrasting theoretical standpoints of shareholder and stakeholder theories. The second part relates to the significance to stakeholders of the implementation of good corporate governance practice in listed companies.

7.3.1 Definitions of corporate governance

This section examines respondents' perceptions regarding the definition of corporate governance. Participants were asked three questions: the first related to the shareholder model; the second was about stakeholders who affect or were affected by the company's decision; and the third was about the stakeholder irrespective of whether they affect or are affected by the company's decision. Respondents were requested to indicate their opinion on a five-point scale ranging from strong disagreement to strong agreement (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree).

Table 7.6 shows the respondents' views on the three definitions of corporate governance. Nearly three-quarters (73.8%) of the participants agreed with definition 1b, which defined corporate governance in terms of an organisation's relationship with all stakeholders who are affected by or who affect the company's operations and decisions. The participants strongly agreed with this definition (mean = 3.9, SD = 0.885). Each group had mean scores between 3.76 and 4.16 (see Table 7.7).

More than two-thirds (67.5%) of the respondents agreed with definition 1a, which described corporate governance as an organisation's relationship with its shareholders to ensure that it acts in accordance with their interests. The overall mean score was 3.66 (SD = 0.875). The mean scores of each group ranged from 3.44 to 4.00 (see Table 7.7).

Definition 1c defined corporate governance as an organisation's relationship with all members of society, irrespective of whether they affect or are affected by the company's operations and decisions. This definition received less support (38.2%, mean = 3.32, SD = 1.079). Table 7.7 shows that responses to definition 1c were divided into two categories. The first category consisted of board members and accountants who disagreed with this statement (mean = 2.92 and 2.93, respectively). The second category comprised managers, audit committee members and internal auditors who were more supportive of this definition (mean = 3.24, 3.39 and 3.66, respectively). In general, the highest percentage of participants agreed with definition question 1b, but to varying degrees. The stakeholder model had a mean score of 3.90.

The Kruskal–Wallis test revealed significant differences, with the respondents holding different perceptions of definitions 1a and 1c, which means that there is at least one group difference. Although the study participants agreed with definition 1a, the Kruskal–Wallis test results in Table 7.7 show statistically significant differences between the respondents' perceptions of this question ($p = .031$). These results did not represent significant differences between groups in terms of agreement and disagreement, but in terms of the level of agreement, with some respondents agreeing more strongly with the statement than others.

The Mann–Whitney test results in Table 7.8 related to definition 1a, revealing that there were significant differences between managers, board members and internal auditors. The managers expressed higher support towards statement 1a, with a mean score of 4.00 more than the other two groups (board members and internal auditors groups) in Table 7.7. In addition, the test found that the audit committee group supported this statement (mean = 3.97), which differs from board members and accountants who supported this statement but to a lesser extent (group mean = 3.44 and 3.48, respectively) (see Table 7.7).

The Kruskal–Wallis test revealed a significant difference ($p = .001$) in the survey groups' average perceptions of definition 1c. The audit committee group strongly supported this definition (mean = 3.79), while board members and accountants were less supportive (mean = 2.93 and 2.92, respectively). The Mann–Whitney test was conducted to identify which group’s view was significantly different. Table 7.7 shows that the audit committee group differed from the board members, accountants and internal auditors groups. In addition, the internal auditor group differed from the board members and accountants. The Kruskal–Wallis test did not indicate any statistically significant differences in perceptions between the five groups concerning definition 1b in Table 7.7.

Table 7.6 Frequency (N), Percentage Distribution (%), Mean and Standard Deviation (SD) of Responses Towards the Statements on Definition of Corporate Governance

Statement	N/%	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD	Rank
1a. Corporate governance refers to an organisation's relationship with its shareholders to ensure that it acts in accordance with the interests of those shareholders.	N	7	5	40	91	17	3.66	.875	2
	%	4.4%	3.1%	25%	56.9%	10.6%			
1b. Corporate governance refers to an organisation's relationship with all stakeholders who are affected by or affect the organisation's operations and decisions.	N	3	7	32	79	39	3.90	.885	1
	%	1.9%	4.4%	20%	49.4%	24.4%			
1c. Corporate governance refers to an organisation's relationship with all members of society, irrespective of whether they affect or are affected by the organisation's operations and decisions.	N	6	27	66	31	30	3.32	1.079	3
	%	3.8%	16.9%	41.3%	19.4%	18.8%			

Table 7.7 Stakeholders Group Means and Kruskal–Wallis Tests Showing Respondents' Views Regarding the Best Definition of Corporate Governance

Statement	Group means position					Kruskal–Wallis Test	
	Manager	Board member	Audit committee	Accountants	Internal auditors	Sig.	Result
1a. Corporate governance refers to an organisation's relationship with its shareholders to ensure that it acts in accordance with the interests of those shareholders.	4.00	3.44	3.97	3.48	3.55	.031	*
1b. Corporate governance refers to an organisation's relationship with all stakeholders who are affected by or affect the organisation's operations and decisions.	3.81	4.16	3.94	3.76	3.89	.621	Not significant
1c. Corporate governance refers to an organisation's relationship with all members of society, irrespective of whether they affect or are affected by the organisation's operations and decisions.	3.24	2.92	3.79	2.93	3.66	.001	**

Note: The Kruskal–Wallis test shows whether there are any differences in the means of responses given by the groups for each question at *$p < 0.05$, **$p < 0.01$.

Table 7.8 Mann–Whitney Tests Showing Respondents' Views Regarding the Best Definition of Corporate Governance

Statement	Manager (Sig.) with	Board member (Sig.) with	Audit committee (Sig.) with	Accountant (Sig.) with	Internal auditor (Sig.) with
1a. Corporate governance refers to an organisation's relationship with its shareholders to ensure that it acts in accordance with the interests of those shareholders.	Board member * Internal auditor *	Manager * Audit committee *	Board member * Internal auditor * Accountant *	Audit Committee *	Manager * Audit Committee *
1b. Corporate governance refers to an organisation's relationship with all stakeholders who are affected by or affect the organisation's operations and decisions.	**No significant differences among groups**				
1c. Corporate governance refers to an organisation's relationship with all members of society, irrespective of whether they affect or are affected by the organisation's operations and decisions		Audit committee ** Internal auditor *	Board member ** Accountant **	Audit committee ** Internal auditor *	Board member * Accountant *

Note: The Mann–Whitney test explains which particular pairs of group means are significantly different from each other at *$p < 0.05$, **$p < 0.01$.

7.3.2 Significance of implementation corporate governance in the UAE

The survey also inquired about the significance of the implementation of good corporate governance practice in UAE listed companies to shareholders, investors, managers/CEOs, employees, creditors (banks, suppliers), customers, auditors, the government and the local community.

The results in Table 7.9 show that 91.9% of the respondents believed that shareholders and investors are the main beneficiaries of good corporate governance (mean = 4.29, SD = 0.798 and 0.749). Table 7.10 shows that the board members and internal auditors agreed on the importance of applying good corporate governance to shareholders (mean = 4.36 and 4.34, respectively), while the managers, audit committee members and accountants supported this statement (mean = 4.29, 4.32 and 4.19, respectively). Meanwhile, Table 7.9 shows that most groups agree on the importance of applying good corporate governance for investors. The board member group expressed a higher level of agreement compared to the other groups (mean = 4.48). The accountant group had the lowest level of agreement (mean = 4.12).

The majority (80%–85%) of respondents agreed with the importance of applying good corporate governance to creditors, managers and the government, which ranked second, third and fourth, respectively, with mean scores of 4.14 (SD = 0.708), 4.11 (SD = 0.757) and 4.04 (SD = 0.788). Table 7.9 also shows that 75.1% of the participants agreed that corporate governance is significant to employees (mean = 3.89, SD = 0.904), followed by customers (70.7%) and auditors (67.6%), with mean scores of 3.88 and 3.87, respectively. The least important beneficiary was the local community (58.2%, mean = 3.64, SD = 1.019). Audit committee members had a higher level of agreement with this statement (mean = 3.91), whereas board members and accountants agreed less strongly with this statement (mean = 3.48 and 3.76, respectively).

In general, these findings show that respondents believe that these corporate governance practices are significant to all nine stakeholder groups, with varying levels of agreement. All items recorded percentages from 58% to 91% and mean scores between 3.64 and 4.29.

The results of the Kruskal–Wallis test in Table 7.10 reveal that there were no statistically significant differences between the groups' perceptions on the significance of corporate governance for the nine stakeholder groups: shareholders ($p = .674$), investors ($p = .996$), managers/CEOs ($p = .248$), employees ($p = .415$), creditors (banks, suppliers, others) ($p = .873$), government ($p = .314$), customers ($p = .249$), auditors ($p = .764$) and local community ($p = .159$).

Table 7.9 Frequency (N), Percentage (%) Distribution, Mean and Standard Deviation (SD) of Responses Towards Statements on the Significance of Corporate Governance Practice

Statement	N/%	Strongly insignificant	insignificant	Neutral	Significant	Strongly Significant	Mean	SD	Rank
2a. Shareholders	N	1	8	4	77	70	4.29	.798	1
	%	.6%	5%	2.5%	48.1%	43.8%			
2b. Investors	N	1	5	7	80	67	4.29	.749	1
	%	.6%	3.1%	4.4%	50%	41.9%			
2c. Managers/CEOs	N	1	5	17	90	47	4.11	.757	3
	%	.6%	3.1%	10.6%	56.3%	29.4%			
2d. Employees	N	3	10	27	82	38	3.89	.904	5
	%	1.9%	6.3%	16.9%	51.3%	23.8%			
2e. Creditors	N	0	3	21	86	50	4.14	.708	2
	%	0	1.9%	13.1%	53.8%	31.3%			
2f. Government	N	1	5	25	84	45	4.04	.788	4
	%	.6%	3.1%	15.6%	52.5%	28.1%			
2g. Customers	N	2	11	34	70	43	3.88	.927	6
	%	1.3%	6.9%	21.3%	43.8%	26.9%			
2h. Auditors	N	1	11	40	62	46	3.87	.927	7
	%	.6%	6.9%	25%	38.8%	28.8%			
2i. Local community	N	5	15	47	59	34	3.64	1.019	8
	%	3.1%	9.4%	29.4%	36.9%	21.3%			

Table 7.10 Stakeholders Group Means and Kruskal–Wallis Tests Showing Respondents' Views Regarding the Significance of Corporate Governance

Statement	Group means position					Kruskal–Wallis Test	
	Manager	Board member	Audit committee	Accountants	Internal auditors	Sig.	Result
2a. Shareholders	4.24	4.48	4.32	4.12	4.37	.674	Not significant
2b. Investors	4.29	4.36	4.32	4.19	4.34	.996	Not significant
2c. Managers/CEOs	4	4.04	4.18	3.95	4.32	.248	Not significant
2d. Employees	4	3.80	3.85	3.71	4.11	.415	Not significant
2e. Creditors (banks, suppliers, others)	4.10	4.16	4.09	4.10	4.26	.873	Not significant
2f. Government	4.10	4.24	4.15	3.81	4.05	.314	Not significant
2g. Customers	3.90	3.88	4.09	3.64	3.95	.249	Not significant
2h. Auditors	3.71	4.04	3.79	3.86	3.97	.764	Not significant
2i. Local community	3.67	3.48	3.91	3.38	3.76	.159	Not significant

Note: The Kruskal–Wallis test shows whether there are any differences in the means of responses given by the groups for each question at *$p < 0.05$, **$p < 0.01$.

7.4 Corporate Governance Principles

This section aims to investigate the current state of corporate governance principles by examining the perceptions of stakeholders' of listed companies in the UAE on the OECD Principles of Corporate Governance. These Principles include: rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and the responsibility of board directors. Respondents were asked to indicate their level of agreement with each of the five principles on a five-point scale ranging from 1 (strongly disagree) to 5 (strongly agree).

7.4.1 Rights of shareholders

In relation to the principle of the rights of shareholders, Table 7.11 shows that the statement with the highest level of agreement (88.7%) was 'the shareholders have the right to participate in company profits' (mean = 4.12, SD = 0.739). Table 7.12 shows that all means of the five groups are 4.00 or above; the managers and accountants groups expressed the strongest agreement with this statement (mean = 4.19 and 4.21), while the board members group expressed less agreement (mean = 4.00). The statement 'shareholders have the right to obtain information related to the company regularly' had the second-highest level of agreement at 80.7% (mean = 4.05, SD = 0.875). Table 7.12 reveals that there was more support for this statement from the audit committee and managers, with mean scores of 4.26 and 4.14, respectively. About eight out of 10 respondents agreed with the statement 'shareholders have the right to vote in general meetings' (mean = 4.02, SD = 0.942), which was ranked third.

Statements a8 ('details about the capital structure of your company are disclosed to shareholders') and a6 ('shareholders are provided with adequate and timely information about company meetings') ranked fourth and fifth, with mean scores of 4.01 and 4.00, respectively. The board members and audit committee members strongly agreed with statement a8, with mean scores of 4.24 and 4.21, respectively. The accountants, internal auditors and managers agreed with this statement but to a lesser degree, with mean scores of 3.83, 3.89 and 3.95, respectively. The overall mean for the statement was 4.01 (SD = 0.880). With respect to statement b6, the highest level of agreement came from audit committee members (mean = 4.26).

Around three-quarters (74.4%) of the participants agreed with the statement ‘shareholders are able to vote in elections and remove members of the board of directors’ (mean = 3.96, SD = 0.950), which was ranked sixth. The statements ranked seventh and eighth were ‘shareholders have the right to discuss the external auditor’s report at the annual general meeting’ and ‘shareholders have the right to be informed on decisions concerning fundamental corporate changes’ (mean = 3.94 and 3.92, respectively).

Statement a1 (‘ownership transfer among shareholders is facilitated’) ranked the lowest among the nine statements (68.7%), with a mean score of 3.69 (SD = 1.065), indicating less support from the respondents. Table 7.12 shows that the internal auditors group agreed with the statement (mean = 3.95) more than the managers and accountants (mean = 3.57 and 3.36, respectively).

Overall, the findings indicate that the respondents agreed with all items, with an overall mean of 3.96. All mean scores for the items were between 3.69 and 4.12. Therefore, the majority of participants agreed, albeit to varying degrees, on the implementation of the principle of the rights of shareholders in UAE listed companies.

Statistical tests revealed significant differences among the groups in terms of statements a4, a5, a7 and a9 in Table 7.12. Statement b4 indicated that shareholders have the right to vote in general meetings ($p = 0.031$). The results of the Mann–Whitney test in Table 7.13 show that the audit committee members’ perceptions significantly differed from those of board members, accountants and internal auditors.

The Kruskal–Wallis test (see Table 7.12) revealed statistically significant differences between the groups’ perceptions of statement a5 (‘shareholders are able to vote in elections and remove members of the board of directors’) ($p = 0.013$). This implies that at least one group is different from the others in terms of their level of agreement. The results of the Mann–Whitney test in Table 7.13 show that the board members, accountants and internal auditors differ from audit committee members, who had a lower level of agreement with the statement.

The Kruskal–Wallis test revealed significant differences between the perceptions of the five groups ($p = 0.025$) on statement a7 in Table 7.12. In particular, managers, audit committee members and internal auditors expressed stronger agreement with this statement. The results of the Mann–Whitney test (see Table 7.13) confirmed significant differences between the groups. The accountants' perceptions significantly differed from those of the managers, audit committee members and internal auditors. Accountants expressed weaker agreement with this statement (mean = 3.52) compared to the other groups. In addition, there was a significant difference in the level of agreement between the board member group and the audit committee group. The audit committee group agreed more strongly with the statement (mean = 4.21) than the board member group (mean = 3.76).

The results of the Kruskal–Wallis test (see Table 7.12) revealed statistically significant differences between the perceptions of the five groups on statement a9 ('shareholders have the right to be informed on decisions concerning fundamental corporate changes') ($p = .015$). This indicates that there was at least one group that differed from the others in terms of the level of agreement. The Mann–Whitney test results (see Table 7.13) show that the level of agreement of the audit committee members was significantly higher than that of the accountants and internal auditors (mean = 4.26). Further, the Mann–Whitney test (see Table 7.13) found that the board members group (mean = 4.12) differs from the accountants group, which was less in agreement (mean = 3.64) (see Table 7.12).

In contrast, the Kruskal–Wallis test (see Table 7.12) revealed that there were no significant differences between the perceptions of the five groups for the following statements: (a1) ownership transfer among shareholders is facilitated ($p = 0.071$); (a2) shareholders have the right to participate in company profits ($p = 0.680$); (a3) shareholders have the right to obtain information related to the company regularly ($p = 0.188$); (b6) shareholders are provided with adequate and timely information about company meetings ($p = 0.065$); and (a8) details about the capital structure of your company are disclosed to shareholders ($p = 0.\ 149$).

Table 7.11 Frequency (N), Percentage Distribution (%), Mean and Standard Deviation (SD) of Responses Towards Statements on the Rights of Shareholders

Statement	N/%	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD	Rank
a1. Ownership transfer among shareholders is facilitated.	N	7	19	24	77	33	3.69	1.065	9
	%	4.4%	11.9%	15%	48.1%	20.6%			
a2. Shareholders have the right to participate in company profits.	N	1	6	11	97	45	4.12	.739	1
	%	.6%	3.8%	6.9%	60.6%	28.1%			
a3. Shareholders have the right to obtain information related to the company regularly.	N	2	8	21	78	51	4.05	.875	2
	%	1.3%	5%	13.1%	48.8%	31.9%			
a4. Shareholders have the right to vote in general meetings.	N	4	9	18	78	51	4.02	.942	3
	%	2.5%	5.6%	11.3%	48.8%	31.9%			
a5. Shareholders are able to vote in elections and remove members of the board of directors.	N	2	13	26	71	48	3.96	.950	6
	%	1.3%	8.1%	16.3%	44.4%	30%			
a6. Shareholders are provided with adequate and timely information about company meetings.	N	0	10	22	86	42	4	.809	5
	%	0	6.3%	13.8%	53.8%	26.3%			
a7. Shareholders have the right to discuss the external auditor’s report at the Annual General Meeting.	N	2	13	27	72	46	3.94	.945	7
	%	1.3%	8.1%	16.9%	45%	28.8%			
a8. Details about the capital structure of your company are disclosed to shareholders.	N	1	10	25	75	49	4.01	.880	4
	%	.6%	6.3%	15.6%	46.9%	30.6%			
a9. Shareholders have the right to be informed on decisions concerning fundamental corporate changes.	N	1	11	29	78	41	3.92	.876	8
	%	.6%	6.9%	18.1%	48.8%	25.6%			
Overall mean							3.96		

Table 7.12 Stakeholders Group Means and Kruskal–Wallis Tests Showing Respondents' Views Regarding the Rights of Shareholders

Statement	Group means position					Kruskal–Wallis Test	
	Manager	Board member	Audit committee	Accountants	Internal auditors	Sig.	Result
a1. Ownership transfer among shareholders is facilitated.	3.57	3.68	3.88	3.36	3.95	.071	Not significant
a2. Shareholders have the right to participate in company profits.	4.19	4	4.03	4.21	4.13	.680	Not significant
a3. Shareholders have the right to obtain information related to the company regularly.	4.14	4.08	4.26	3.74	4.13	.188	Not significant
a4. Shareholders have the right to vote in general meetings.	4.05	4.16	4.38	3.79	3.84	.031	*
a5. Shareholders are able to vote in elections and remove members of the board of directors.	4.05	3.96	4.38	3.71	3.71	.013	*
a6. Shareholders are provided with adequate and timely information about company meetings.	4.19	4.00	4.26	3.83	3.84	.065	Not significant
a7. Shareholders have the right to discuss the external auditor's report at the Annual General Meeting.	4.14	3.76	4.21	3.52	4.08	.025	*
a8. Details about the capital structure of your company are disclosed to shareholders.	3.95	4.24	4.21	3.83	3.89	.149	Not significant
a9. Shareholders have the right to be informed on decisions concerning fundamental corporate changes.	3.95	4.12	4.26	3.64	3.76	.015	*

Note: The Kruskal–Wallis test shows whether there are any differences in the means of responses given by the groups for each question. *$p < 0.05$, **$p < 0.01$.

Table 7.13 Mann–Whitney Tests Showing Respondents' Views Regarding the Rights of Shareholders

Statement	Manager (Sig.) with	Board member (Sig.) with	Audit committee (Sig.) with	Accountant (Sig.) with	Internal auditor (Sig.) with
a1. Ownership transfer among shareholders is facilitated.	No significant differences among groups				
a2. Shareholders have the right to participate in company profits.	No significant differences among groups				
a3. Shareholders have the right to obtain information related to the company regularly.	No significant differences among groups				
a4. Shareholders have the right to vote in general meetings.		Audit committee *	Board member * Internal auditor ** Accountant **	Audit committee **	Audit committee **
a5. Shareholders are able to vote in elections and remove members of the board of directors.		Audit committee *	Internal auditor ** Accountant **	Audit committee **	Audit committee **
a6. Shareholders are provided with adequate and timely information about company meetings.	No significant differences among groups				
a7. Shareholders have the right to discuss the external auditor's report at the Annual General Meeting.	Accountant *	Audit committee *	Board member * Accountant *	Manager * Audit committee * Internal auditor *	Accountant *
a8. Details about the capital structure of your company are disclosed to shareholders.	No significant differences among groups				
a9. Shareholders have the right to be informed on decisions concerning fundamental corporate changes.		Accountant *	Accountant ** Internal auditor *	Board member * Audit committee **	Audit committee *

Note: The Mann–Whitney test explains which particular pairs of group means are significantly different from each other. *$p < 0.05$, **$p < 0.01$.

7.4.2 Equitable treatment of shareholders

The respondents of the five groups agreed with all six statements concerning the implementation of the principle of the equitable treatment of shareholders. Table 7.14 shows that the statement ‘shareholders have the right to obtain information about voting rights before they purchase shares’ had the highest level of agreement at 71.9% (mean = 3.80, SD = 0.896). Audit committee members, board members and managers were the strongest supporters of this statement (mean = 3.97, 3.96 and 3.95, respectively). Accountants showed the least support for the statement (mean = 3.52) (see Table 7.15). The statement ‘all shareholders who are from the same class are treated equally’ was ranked second at 65.7% (mean = 3.73, SD = 1.044).

The statement ‘processes and procedures for general shareholder meetings allow for equitable treatment of all shareholders’ ranked third, with 65% of respondents expressing their agreement (mean = 3.73, SD = 0.890). Audit committee members and internal auditors had higher levels of agreement (mean = 3.91 and 3.84, respectively). Board members, managers and accountants had lower levels of agreement (mean = 3.68, 3.62 and 3.55, respectively) (see Table 7.15). Six out of 10 (60.7%) participants agreed with the statement ‘minority shareholders are protected from insider trading’, which was ranked fourth (mean = 3.63, SD = 0.956). Accountants and managers expressed weaker support for this statement (mean = 3.38 and 3.62, respectively) (see Table 7.15). The statement ‘board members and key executives disclose material interests in any transaction or matter directly affecting the company’ was ranked fifth. Half (50.7%) of the respondents agreed with this statement (mean = 3.39, SD = 1.133). Table 7.15 shows that the means ranged from 3.31 to 3.50, with the strongest support coming from audit committee members and the weakest support from the accountants group.

Nearly four out of 10 (38.2%) respondents agreed with the statement ‘there are means to remove the obstacles of cross-border voting’, which ranked the lowest (mean score = 3.14). Table 7.14 shows that the respondents generally agreed with this statement; the means of most groups were between 3.00 and 3.48. Only the accountant group had a mean score below 3.00. There were no statistically significant differences between the groups. In summary, most of the items recorded mean scores between 3.14 and 3.80. The majority of participants agreed, albeit to varying degrees, on the implementation of the principle of the equitable treatment of shareholders in UAE listed companies (overall mean = 3.57, SD = 0.997) in Table 7.14.

The Kruskal–Wallis test Table 7.15 revealed a statistically significant difference between the groups' perceptions of statement b1 ('all shareholders who are from the same class are treated equally') (p = 0.043). This implies that at least one group is different from the others. The results in Table 7.16 show that the board members expressed the strongest agreement (mean = 4.28) with the statement. The Mann–Whitney test (see Table 7.16) reveals that the board members' level of agreement was significantly higher than that of the other four groups. The mean scores of the managers, audit committee members, accountants and internal auditors were 3.52, 3.74, 3.60 and 3.63, respectively (see Table 7.15).

The Kruskal–Wallis test (see Table 7.15) revealed general consensus among respondents on their perceptions of the following statements: (b2) processes and procedures for general shareholder meetings allow for equitable treatment of all shareholders (p = 0.143); (b3) performance-enhancing mechanisms for employee participation are permitted to develop (p = .359); (b4) minority shareholders are protected from insider trading (p = .495); (b5) there are means to remove the obstacles of cross-border voting (p = .278); and (b6) board members and key executives disclose material interests in any transaction or matter directly affecting the company (p = . 912).

Table 7.14 Frequency (N), Percentage Distribution (%), Mean and Standard Deviation (SD) of Responses Towards Statements on Equitable Treatment of Shareholders

Statement	N/%	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD	Rank
b1. All shareholders who are from the same class are treated equally.	N	5	17	33	66	39	3.75	1.044	2
	%	3.1%	10.6%	20.6%	41.3%	24.4%			
b2. Shareholders have the right to obtain information about voting rights before they purchase shares.	N	4	9	32	85	30	3.80	.896	1
	%	2.5%	5.6%	20%	53.1%	18.8%			
b3. Processes and procedures for general shareholder meetings allow for equitable treatment of all shareholders.	N	1	15	40	75	29	3.73	.890	3
	%	.6%	9.4%	25%	46.9%	18.1%			
b4. Minority shareholders are protected from insider trading.	N	6	10	47	71	26	3.63	.956	4
	%	3.8%	6.3%	29.4%	44.4%	16.3%			
b5. There are means to remove the obstacles of cross-border voting.	N	13	27	59	47	14	3.14	1.061	6
	%	8.1%	16.9%	36.9%	29.4%	8.8%			
b6. Board members and key executives disclose material interests in any transaction or matter directly affecting the company.	N	13	18	48	55	26	3.39	1.133	5
	%	8.1%	11.3%	30%	34.4%	16.3%			
Overall mean							3.57		

Table 7.15 Stakeholders Group Means and Kruskal–Wallis Tests Showing Respondents' Views Regarding Equitable Treatment

Statement	Group means position					Kruskal–Wallis Test	
	Manager	Board member	Audit committee	Accountants	Internal auditors	Sig.	Result
b1. All shareholders who are from the same class are treated equally.	3.52	4.28	3.74	3.60	3.63	.043	*
b2. Shareholders have the right to obtain information about voting rights before they purchase shares.	3.95	3.96	3.97	3.52	3.76	.143	Not significant
b3. Processes and procedures for general shareholder meetings allow for equitable treatment of all shareholders.	3.62	3.68	3.91	3.55	3.84	.359	Not significant
b4. Minority shareholders are protected from insider trading.	3.62	3.88	3.74	3.38	3.66	.495	Not significant
b5. There are means to remove the obstacles of cross-border voting.	3.00	3.48	3.21	2.95	3.13	.278	Not significant
b6. Board members and key executives disclose material interests in any transaction or matter directly affecting the company.	3.48	3.32	3.50	3.31	3.39	.912	Not significant

Note: The Kruskal–Wallis test shows whether there are any differences in the means of responses given by the groups for each question. *$p < 0.05$, **$p < 0.01$.

Table 7.16 Mann–Whitney Tests Showing Respondents' Views Regarding Equitable Treatment of Shareholders

Statement	**Manager (Sig.) with**	**Board member (Sig.) with**	**Audit committee (Sig.) with**	**Accountant (Sig.) with**	**Internal auditor (Sig.) with**
b1. All shareholders who are from the same class are treated equally.	Board member *	Manager * Audit committee * Accountant * Internal auditor **	Board member *	Board member *	Board member **
b2. Shareholders have the right to obtain information about voting rights before they purchase shares.	No significant differences among groups				
b3. Processes and procedures for general shareholder meetings allow for equitable treatment of all shareholders.	No significant differences among groups				
b4. Minority shareholders are protected from insider trading.	No significant differences among groups				
b5. There are means to remove the obstacles of cross-border voting.	No significant differences among groups				
b6. Board members and key executives disclose material interests in any transaction or matter directly affecting the company.	No significant differences among groups				

Note: The Mann–Whitney test explains which particular pairs of group means are significantly different from each other. *$p < 0.05$, **$p < 0.01$.

7.4.3 Role of stakeholders in corporate governance

Respondents registered the highest level of agreement with the statement ‘stakeholders’ rights that are established by law are respected by the company’ (75.7%, mean = 3.84) (see Table 7.17). The strongest supporters were audit committee members (mean = 3.94), followed by managers (mean = 3.90) and board members (mean = 3.88) (see Table 7.18). Statement d4 (‘stakeholders have the right to obtain sufficient and reliable information on a timely basis’) ranked second (mean = 3.69). Around two-thirds (65.7%) of the respondents agreed with the statement. Table 7.17 shows that the means ranged from 3.50 to 3.90, with the strongest support coming from the managers and the weakest support from the accountants.

Statement c5 (‘stakeholders have the right to communicate freely their concerns about illegal or unethical practices to the board’) ranked third. Table 7.17 shows that the majority (64.4%) of respondents agreed with this statement, with an overall mean of 3.68 (SD = 0.935). Most groups recorded mean scores between 3.44 and 3.95, with stronger support from the managers and weaker support from the board members (see Table 7.18).

Table 7.17 shows that the majority (63.5%) of respondents also agreed with statement c2 (‘performance-enhancing mechanisms for employee participation are permitted to develop’). The statement ranked fourth and had an overall mean of 3.67 (SD = 0.943), with no statistically significant differences between the groups. Table 7.18 indicates that respondents’ means ranged from 3.52 to 3.88, with the strongest support coming from board members and the weakest support from accountants. Meanwhile, six out of 10 (60%) respondents agreed with statement c3 (‘the stakeholders have the opportunity to obtain effective redress for violation of their rights’). Table 7.17 reveals that the statement was ranked fifth (mean = 3.48, SD = 1.110).

The last-ranked statement was c6 (‘an effective corporate governance framework enforces creditor rights’), which had a mean score of 3.47. Table 7.17 shows that 47.6% of respondents agreed with the statement. The mean of all groups was between 3.34 and 3.67, with no statistically significant differences between the groups (see Table 7.18).

Overall, all items recorded mean scores between 3.47 and 3.84, indicating that the majority of participants agreed about the implementation of the principle of the stakeholders' role in corporate governance in UAE listed companies, with an overall mean score of 3.64 (see Table 7.17).

Results of the Kruskal–Wallis test in Table 7.17 show that there were no significant differences in the perceptions of the five groups on the following statements: (c1) stakeholder rights that are established by law are respected by the company ($p = .869$); (c2) performance-enhancing mechanisms for employee participation are permitted to develop ($p = .625$); (c3) stakeholders have the opportunity to obtain effective redress for violation of their rights ($p = .473$); (c4) stakeholders have the right to obtain sufficient and reliable information on a timely basis ($p = .209$); (c5) stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the board ($p = .275$); and (c6) an effective corporate governance framework enforces creditor rights ($p = .749$).

Table 7.17 Frequency (N), Percentage Distribution (%), Mean and Standard Deviation (SD) of Responses Towards Statements on the Role of Stakeholders in Corporate Governance

Statement	N/%	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD	Rank
c1. Stakeholder rights that are established by law are respected by the company.	N	2	9	28	94	27	3.84	.813	1
	%	1.3%	5.6%	17.5%	58.8%	16.9%			
c2. Performance-enhancing mechanisms for employee participation are permitted to develop.	N	4	13	43	72	28	3.67	.943	4
	%	2.5%	8.1%	26.9%	45%	17.5%			
c3. Stakeholders have the opportunity to obtain effective redress for violation of their rights.	N	12	19	33	73	23	3.48	1.110	5
	%	7.5%	11.9%	20.6%	45.6%	14.4%			
c4. Stakeholders have the right to obtain sufficient and reliable information on a timely basis.	N	3	11	41	82	23	3.69	.869	2
	%	1.9%	6.9%	25.6%	51.3%	14.4%			
c5. Stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the board.	N	3	16	38	76	27	3.68	.935	3
	%	1.9%	10%	23.8%	47.5%	16.9%			
c6. An effective corporate governance framework enforces creditor rights.	N	2	15	67	58	18	3.47	.861	6
	%	1.3%	9.4%	41.9%	36.3%	11.3%			
Overall mean							3.64		

Table 7.18 Stakeholders Group Means and Kruskal–Wallis Test Showing Respondents' Views Regarding the Role of Stakeholders in Corporate Governance

Statement	Group means position					Kruskal–Wallis Test	
	Manager	Board member	Audit committee	Accountants	Internal auditors	Sig.	Result
c1. Stakeholder rights that are established by law are respected by the company.	3.90	3.88	3.94	3.76	3.79	.869	Not significant
c2. Performance-enhancing mechanisms for employee participation are permitted to develop.	3.86	3.88	3.59	3.52	3.66	.625	Not significant
c3. Stakeholders have the opportunity to obtain effective redress for violation of their rights.	3.76	3.44	3.44	3.31	3.55	.473	Not significant
c4. Stakeholders have the right to obtain sufficient and reliable information on a timely basis.	3.90	3.56	3.82	3.50	3.76	.209	Not significant
c5. Stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the board.	3.95	3.44	3.76	3.52	3.76	.275	Not significant
c6. An effective corporate governance framework enforces creditor rights.	3.67	3.36	3.53	3.50	3.34	.749	Not significant

Note: The Kruskal–Wallis test shows whether there are any differences in the means of responses given by the groups for each question. *$p < 0.05$, **$p < 0.01$.

7.4.4 Disclosure and transparency

Table 7.19 shows the participants' responses concerning the implementation of the disclosure and transparency principle. The statement 'an annual audit of the company is conducted by an independent auditor results' registered the highest level of agreement (86.7%, mean = 4.21, SD = 0.817). More than eight out of 10 (84.4%) participants agreed with the statement 'information is prepared and disclosed in accordance with International Accounting Standards' (mean = 4.16, SD = 0.821).

The majority (85.6%) of participants also agreed with the statement 'financial and operating results of the company are disclosed during the fiscal year' (see Table 7.19). This statement ranked third out of nine items, with an overall mean score of 4.02 (SD = 0.974). Table 7.20 also indicates that the internal auditors expressed the strongest agreement among the groups (mean = 4.21), while the accountants expressed the weakest (mean = 3.64). A similar proportion (84%) of respondents also agreed with the principle that the objectives of the company are disclosed (mean = 4.01, SD = 0.839).

Table 7.19 shows that three-quarters (76.3%) of the participants agreed with statement d3 ('major share ownership is disclosed'), with a mean score of 3.94 (SD = 0.899). The strongest support came from managers and audit committee members, while the lowest support came from accountants (mean = 3.60) (see Table 7.20).

Statements d9 ('channels for the dissemination of information on a timely basis to relevant users are provided') and d6 ('issues regarding employees and other stakeholders, such as programs for human resource development and training, are disclosed') ranked sixth and seventh, with mean scores of 3.89 and 3.73 (SD = 0.897 and 0.890), respectively. Around eight out of 10 (79.4%) respondents agreed with statement d9, with the means of most groups over 4.00. Only the accountants and internal auditors had mean scores below 4.00 (3.67 and 3.71, respectively). Around seven out of 10 (69.4%) participants agreed with statement d6. The managers had the highest level of agreement with this statement (mean = 3.86), while the accountants had the lowest (mean = 3.64).

Statement d5 elicited respondents' opinions on whether the remuneration of board members and key executives is disclosed. This statement ranked eighth out of nine statements regarding disclosure and transparency, with 66.2% of the respondents expressing their agreement (mean = 3.69, SD =1.034). Table 7.20 shows that the managers and audit committee had the highest level of agreement among the groups (mean = 3.90 and 3.91).

The lowest level of support for a statement in this section was for d4, which stated that foreseeable risk factors are disclosed. Table 7.19 shows that 60.7% of the respondents concurred with this statement (mean = 3.63). Managers, board members and audit committee members (mean = 3.81, 3.60 and 3.85, respectively) agreed with this statement more strongly than accountants and internal auditors. These results show that the majority of participants agreed with the implementation of the principle of disclosure and transparency in the UAE listed companies, with an overall mean score of 3.92. All items recorded mean scores between 3.63 and 4.21 (see Table 7.19).

The Kruskal–Wallis test revealed significant differences between the groups' attitudes towards statements d2, d7 and d8 (see Table 7.20). Although the study participants registered high support for statement d2, the results of the Kruskal–Wallis test showed statistically significant differences in the respondents' level of agreement with this statement (p = 0.015). The Mann–Whitney test in Table 7.21 revealed that the managers expressed a significantly higher level of agreement than the other groups (mean = 4.48).

The results of the Kruskal–Wallis test also showed significant differences in the respondents' views on whether an annual audit of the company is conducted by an independent auditor (p = .001). The significant differences reflected greater support from the first and third groups (managers and audit committee) with mean scores of 4.62 and 4.50, respectively (see Table 7.20). The results of the Mann–Whitney test in Table 7.21 revealed that managers and audit committee members had significant differences with the other groups. The Kruskal–Wallis test showed significant differences between the groups' answers to statement d8 (p = .006), which means that there is at least one group difference. The Mann–Whitney test results in Table 7.21 revealed that managers and audit committee members expressed significantly higher agreement with the statement compared to all other groups, with mean scores of 4.48 and 4.44, respectively (see Table 7.20).

Based on both the Kruskal–Wallis test in Table 7.20 and the Mann–Whitney test in Table 7.21, the differences between the groups' perceptions of the following six statements were not statistically significant: (d1) the financial and operating results of the company are disclosed; (d3) major share ownership is disclosed; (d4) foreseeable risk factors are disclosed; (d5) remuneration of board members and key executives is disclosed; (d6) issues regarding employees and other stakeholders, such as programs for human resource development and training, are disclosed; and (d9) channels for the dissemination of information on a timely basis to relevant users are provided.

Table 7.19 Frequency (N), Percentage Distribution (%), Mean and Standard Deviation (SD) of Responses Towards Statements on the Disclosure and Transparency

Statement	N/%	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD	Rank
d1. The financial and operating results of the Company are disclosed.	N	7	8	8	89	48	4.02	.974	3
	%	4.4%	5%	5%	55.6%	30%			
d2. The objectives of the company are disclosed.	N	2	10	13	94	41	4.01	.839	4
	%	1.3%	6.3%	8.1%	58.8%	25.6%			
d3. Major share ownership is disclosed.	N	3	8	27	79	43	3.94	.899	5
	%	1.9%	5%	16.9%	49.4%	26.9%			
d4. Foreseeable risk factors are disclosed.	N	3	17	43	70	27	3.63	.949	9
	%	1.9%	10.6%	26.9%	43.8%	16.9%			
d5. Remuneration of board members and key executives is disclosed.	N	7	14	33	73	33	3.69	1.034	8
	%	4.4%	8.8%	20.6%	45.6%	20.6%			
d6. Issues regarding employees and other stakeholders, such as programs for human resource development and training, are disclosed.	N	2	16	31	86	25	3.73	.890	7
	%	1.3%	10%	19.4%	53.8%	15.6%			
d7. An annual audit of the company is conducted by an independent auditor.	N	1	7	13	76	63	4.21	.817	1
	%	.6%	4.4%	8.1%	47.5%	39.4%			
d8. Information is prepared and disclosed in accordance with International Accounting Standards.	N	2	4	19	77	58	4.16	.821	2
	%	1.3%	2.5%	11.9%	48.1%	36.3%			
d9. Channels for the dissemination of information on a timely basis to relevant users are provided.	N	3	13	17	93	34	3.89	.897	6
	%	1.9%	8.1%	10.6%	58.1%	21.3%			
Overall mean							3.92		

Table 7.20 Stakeholders Group Means and Kruskal–Wallis Tests Showing Respondents' Views Regarding the Disclosure and Transparency

Statement	Group means position					Kruskal–Wallis Test	
	Manager	Board member	Audit committee	Accountants	Internal auditors	Sig.	Result
d1. The financial and operating results of the company are disclosed.	4.19	4.20	4.03	3.64	4.21	.140	Not significant
d2. The objectives of the company are disclosed.	4.48	4.12	4.00	3.64	4.11	.015	*
d3. Major share ownership is disclosed.	4.14	4.04	4.09	3.62	4.00	.241	Not significant
d4. Foreseeable risk factors are disclosed.	3.81	3.60	3.85	3.50	3.50	.492	Not significant
d5. Remuneration of board members and key executives is disclosed.	3.90	3.32	3.91	3.52	3.82	.058	Not significant
d6. Issues regarding employees and other stakeholders, such as programs for human resource development and training, are disclosed.	3.86	3.76	3.76	3.64	3.68	.942	Not significant
d7. An annual audit of the company is conducted by an independent auditor.	4.62	4.04	4.50	3.93	4.13	.001	**
d8. Information is prepared and disclosed in accordance with International Accounting Standards.	4.48	4.08	4.44	3.79	4.18	.006	**
d9. Channels for the dissemination of information on a timely basis to relevant users are provided.	4.24	4.00	4.06	3.67	3.71	.153	Not significant

Note: The Kruskal–Wallis test shows whether there are any differences in the means of responses given by the groups for each question. $*p < 0.05$, $**p < 0.01$.

Table 7.21 Mann–Whitney Tests Showing Respondents' Views Regarding the Disclosure and Transparency

Statement	Manager (Sig.) with	Board member (Sig.) with	Audit committee (Sig.) with	Accountant (Sig.) with	Internal auditor (Sig.) with
d1. The financial and operating results of the company are disclosed.	No significant differences among groups				
d2. The objectives of the company are disclosed.	Board member * Audit committee * Accountant ** Internal auditor **	Manager *	Manager *	Manager **	Manager *
d3. Major share ownership is disclosed.	No significant differences among groups				
d4. Foreseeable risk factors are disclosed.	No significant differences among groups				
d5. Remuneration of board members and key executives is disclosed.	No significant differences among groups				
d6. Issues regarding employees and other stakeholders, such as programs for human resource development and training, are disclosed.	No significant differences among groups				
d7. An annual audit of the company is conducted by an independent auditor.	Board member ** Accountant ** Internal auditor **	Manager ** Audit committee**	Board member ** Accountant ** Internal auditor **	Manager ** Audit committee*	Manager ** Audit committee**
d8. Information is prepared and disclosed in accordance with International Accounting Standards.	Board member* Accountant**	Manager* Audit committee*	Board member* Accountant**	Manager** Audit committee**	
d9. Channels for the dissemination of information on a timely basis to relevant users are provided.	No significant differences among groups				

Note: The Mann–Whitney test explains which particular pairs of group means are significantly different from each other. *$p < 0.05$, **$p < 0.01$.

7.4.5 Responsibility of the board directors

Table 7.22 illustrates the respondents' views concerning the implementation of the principle of board directors' responsibility. Statement e1 elicited the respondents' opinion on whether board members act in the best interests of the company and the shareholders. Most (84.4%) of the respondents agreed with this statement (mean = 4.04, SD = 0.910), which ranked first among nine. Almost all respondent groups supported this statement, with the managers expressing the highest level of agreement (mean = 4.19). Only the audit committee group and the accountants group had mean scores below 4.00 (3.88 and 3.98, respectively). Meanwhile, 82.6% of the respondents agreed that board members are provided with accurate, relevant information about the company (mean = 4.03, SD = 0.699).

The third-ranked statement, e8, focused on whether the board has approved a strategic plan for the company (mean = 3.86, SD = 0.983). Around seven out of 10 (71.9%) respondents concurred with the statement, with the results of the Kruskal–Wallis test (see Table 7.23) showing a statistically significant difference in the level of agreement between the groups.

Around three out of four respondents (73.7%) agreed with the fourth-ranked statement 'the board of directors elects, monitors and replaces executives when necessary' (mean = 3.83, SD = 0.792). Table 7.23 shows that the managers expressed the strongest agreement (mean = 4.00), while the audit committee group expressed the weakest (mean = 3.65). Table 7.22 shows that the five groups agreed that the board monitors the effectiveness of the company's governance practices during the fiscal year, with this statement ranked fifth out of nine items (mean = 3.82, SD = 0.808).

Table 7.22 shows that 68.8% of the respondents agreed with the sixth-ranked statement 'the board monitors and manages potential conflicts of interest of management, board members and shareholders'. All groups recorded mean scores above 3.70. Board members registered the highest level of agreement with the statement (mean = 3.88), while both the audit committee members and internal auditors had the lowest level of agreement (mean= 3.71) (see Table 7.24).

Statement e2 asked the respondents if the board takes stakeholders' interests into account. The statement ranked seventh in terms of level of agreement (71.9%, mean =

3.77, SD = 0.870). Internal auditors and managers had a high level of agreement (mean = 3.97 and 3.76, respectively). Table 7.23 shows no statistically significant differences between the groups in statement e2, which ranked fourth out of nine statements.

Statements e9 and e6 ranked eighth and ninth, with mean scores of 3.69 and 3.63, respectively. The majority (63.1%) of respondents agreed with statement e9 ('board members are able to devote sufficient time to their responsibilities'), with a mean score of 3.69 (SD = 1.023). Most groups recorded mean scores between 3.44 and 3.79, with the audit committee members and accountants registering stronger agreement. The majority (62.5%) of the respondents also agreed with the statement 'the board supervises the process of disclosure and communication'. Table 7.23 shows that the accountants reported the weakest agreement with the statement (mean = 3.45), while audit committee members reported the strongest agreement (mean = 3.79).

In conclusion, all statements recorded mean scores between 3.63 and 4.04. Therefore, the majority of the participants agreed, to varying degrees, with the implementation of the principle of board directors' responsibility in UAE listed companies (overall mean score = 3.57, SD = 0.997).

The results of the Kruskal–Wallis test in Table 7.23 show that the five groups share similar perceptions towards most of the statements regarding the board directors' responsibility. There were no statistically significant differences in the respondents' views concerning the following statements: (e1) board members act in the best interests of the company and the shareholders ($p = 0.900$); (e2) the board takes stakeholders' interests into account ($p = 0.626$); (e3) the board monitors the effectiveness of the company's governance practice ($p = 0.604$); (e4) the board of directors elects, monitors and replaces executives when necessary ($p = 0.361$); (e5) the board monitors and manages potential conflicts of interest of management, board members and shareholders ($p = 0.886$); (e6) the board supervises the process of disclosure and communication ($p = 0.550$); (e7) board members are provided with accurate, relevant information about the company ($p =0.984$); and (e9) board members are able to devote sufficient time to their responsibilities ($p = 0.632$).

The results of the Kruskal–Wallis test in Table 7.23 revealed statistically significant differences ($p = 0.035$) in respondents' attitudes towards statement e8 ('the board has approved a strategic plan for the company'). The results represent variance in the level of agreement among the respondents, with some agreeing more than others. The Mann–Whitney test (see Table 7.24) found that the managers differ from the board members, accountants and internal auditors.

Table 7.22 Frequency (N), Percentage Distribution (%), Mean and Standard Deviation (SD) of Responses Towards Statements on the Responsibility of Board Directors

Statement	N/%	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD	Rank
e1. Board members act in the best interests of the company and the shareholders.	N	4	9	12	87	48	4.04	.910	1
	%	2.5%	5.6%	7.5%	54.4%	30%			
e2. The board takes stakeholders' interests into account.	N	2	14	29	89	26	3.77	.870	7
	%	1.3%	8.8%	18.1%	55.6%	16.3%			
e3. The board monitors the effectiveness of the company's governance practices.	N	1	11	30	92	26	3.82	.808	5
	%	.6%	6.9%	18.8%	57.5%	16.3%			
e4. The board of directors elects, monitors and replaces executives when necessary.	N	1	10	31	93	25	3.83	.792	4
	%	.6%	6.3%	19.4%	58.1%	15.6%			
e5. The board monitors and manages potential conflicts of interest of management, board members and shareholders.	N	0	11	39	84	26	3.78	.798	6
	%	0	6.9%	24.4%	52.5%	16.3%			
e6. The board supervises the process of disclosure and communication.	N	4	10	46	81	19	3.63	.866	9
	%	2.5%	6.3%	28.8%	50.6%	11.9%			
e7. Board members are provided with accurate relevant information about the company.	N	0	4	24	94	38	4.03	.699	2
	%	0	2.5%	15%	58.8%	23.8%			
e8. The board has approved a strategic plan for the company.	N	3	15	27	72	43	3.86	.983	3
	%	1.9%	9.4%	16.9%	45%	26.9%			
e9. Board members are able to devote sufficient time to their responsibilities.	N	3	21	35	65	36	3.69	1.023	8
	%	1.9%	13.1%	21.9%	40.6%	22.5%			
Overall mean							3.57		

Table 7.23 Stakeholders Group Means and Kruskal–Wallis Tests Showing Respondents' Views Regarding the Responsibility of Board Directors

Statement	Group means position					Kruskal–Wallis Test	
	Manager	Board member	Audit committee	Accountants	Internal auditors	Sig.	Result
e1. Board members act in the best interests of the company and the shareholders.	4.19	4.12	3.88	3.98	4.11	.900	Not significant
e2. The board takes stakeholders' interests into account.	3.76	3.64	3.74	3.69	3.97	.626	Not significant
e3. The board monitors the effectiveness of the company's governance practices.	3.95	3.72	3.82	3.69	3.95	.604	Not significant
e4. The board of directors elects, monitors and replaces executives when necessary.	4.00	3.72	3.65	3.81	3.95	.361	Not significant
e5. The board monitors and manages potential conflicts of interest of management, board members and shareholders.	3.86	3.88	3.71	3.81	3.71	.886	Not significant
e6. The board supervises the process of disclosure and communication.	3.57	3.76	3.79	3.45	3.63	.550	Not significant
e7. Board members are provided with accurate relevant information about the company.	4.05	4.00	4.06	4.05	4.03	.984	Not significant
e8. The board has approved a strategic plan for the company.	4.43	3.72	3.91	3.83	3.61	.035	*
e9. Board members are able to devote sufficient time to their responsibilities.	3.76	3.44	3.79	3.79	3.61	.632	Not significant

Note: The Kruskal–Wallis test shows whether there are any differences in the means of responses given by the groups for each question. *$p < 0.05$, **$p < 0.01$.

Table 7.24 Mann–Whitney Tests Showing Respondents' Views Regarding the Responsibility of Board Directors

Statement	Manager (Sig.) with	Board member (Sig.) with	Audit committee (Sig.) with	Accountant (Sig.) with	Internal auditor (Sig.) with
e1. Board members act in the best interests of the company and the shareholders.	No significant differences among groups				
e2. The board takes stakeholders' interests into account.	No significant differences among groups				
e3. The board monitors the effectiveness of the company's governance practices.	No significant differences among groups				
e4. The board of directors elects, monitors and replaces executives when necessary.	No significant differences among groups				
e5. The board monitors and manages potential conflicts of interest of management, board members and shareholders.	No significant differences among groups				
e6. The board supervises the process of disclosure and communication.	No significant differences among groups				
e7. Board members are provided with accurate relevant information about the company.	No significant differences among groups				
e8. The board has approved a strategic plan for the company.	Board member * Accountant ** Internal auditor **	Manager *		Manager **	Manager **
e9. Board members are able to devote sufficient time to their responsibilities.	No significant differences among groups				

Note: The Mann–Whitney test explains which particular pairs of group means are significantly different from each other. *p < 0.05, **p < 0.01.

7.5 Possible Barriers to the Implementation of Corporate Governance

This section investigates the third objective with respect to the obstacles that might affect the implementation of corporate governance in the UAE. To achieve this objective, the participants were provided with a list of barriers and asked to rate the extent to which they thought these barriers might affect the development of corporate governance in the UAE. They used a standard five-point Likert scale to indicate their level of agreement (1 = strongly agree, 2 = agree, 3 = neutral, 4 = disagree, 5 = strongly disagree). The results in Table 7.25 show that 40%–68% of the respondents agreed with the items listed as barriers that might affect the implementation of corporate governance in the UAE, with mean scores of 2.78 or less. Respondents ranked ‘culture of UAE community’ and ‘weak accounting and auditing profession’ as the first and second possible barriers, with mean scores of 2.23 and 2.32, respectively. However, their level of agreement differed as indicated by the variation in the mean scores.

Weak legal controls and law enforcement was ranked as the third possible barrier (mean = 2.33), while the lack of legal and regulatory systems that govern companies’ activities was ranked as the fourth barrier (mean = 2.34). Respondents ranked ‘poor quality accounting and finance education’ as the fifth barrier (mean = 2.37). Table 7.25 shows that respondents considered the aforementioned items the main barriers that might affect the implementation of corporate governance. Barriers such as ‘good relationship between the company and the external auditors’, ‘government interference in business activities’ and ‘the state of UAE economy’ (mean = 2.43, 2.46 and 2.66, respectively) were not given as much importance. The least important barrier was ‘the costs of practicing good corporate governance outweigh the benefits’ (mean = 2.78).

Statistical tests revealed significant differences in the opinions of the five groups towards poor-quality accounting and finance education ($p = 0.022$). A Mann–Whitney test (see Table 7.27) revealed that board members’ level of agreement was significantly stronger than that of audit committee members and accountants, with a mean score of 1.92 (see Table 7.26). However, these results did not represent significant dispersions between responses in terms of agreement–disagreement; rather, they represented variance in the agreement level, as some respondents agreed more strongly with items than others.

The results of the Kruskal–Wallis test in Table 7.26 revealed no statistically significant differences in the groups' opinions of the following barriers: weak legal controls and law enforcement (p = .543); the culture of the UAE community (p = .080); weak accounting and auditing profession (p = .208); weak infrastructures of financial institutions (p = .084); lack of legal and regulatory systems that govern companies' activities (p = .741); government interference in business activities (p = .663); the state of the UAE economy (p = .502); the costs of practicing good corporate governance outweigh the benefits (p = .114); poor financial and non-financial disclosure (p = .799); and good relationship between the company and the external auditors (p = .962).

Table 7.25 Frequency (N), Percentage Distribution (%), Mean and Standard Deviation (SD) of Responses Towards Statements on Possible Barriers to the Implementation of Corporate Governance

Statement	N/%	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD	Rank
4a. Weak legal controls and law enforcement.	N	9	23	19	70	39	2.33	1.159	3
	%	5.6%	14.4%	11.9%	43.8%	24.4%			
4b. Culture of the UAE community.	N	2	16	34	73	35	2.23	.947	1
	%	1.3%	10%	21.35	45.6%	21.9%			
4c. Weak accounting and auditing profession.	N	3	19	37	69	32	2.32	.988	2
	%	1.9%	11.9%	23.1%	43.1%	20%			
4d. Poor-quality accounting and finance education.	N	4	19	40	66	31	2.37	1.007	5
	%	2.5%	11.9%	25%	41.3%	19.4%			
4e. Weak infrastructures of financial institutions.	N	3	28	28	80	21	2.45	.989	8
	%	1.9%	17.5%	17.5%	50%	13.1%			
4f. Lack of legal and regulatory systems that govern companies' activities.	N	2	26	28	72	32	2.34	1.015	4
	%	1.3%	16.3%	17.5%	45%	20%			
4g. Government interference in business activities.	N	5	20	45	64	26	2.46	1.009	9
	%	3.1%	12.5%	28.1%	40%	16.3%			
4h. State of the UAE economy.	N	14	22	36	71	17	2.66	1.116	11
	%	8.8%	13.8%	22.5%	44.4%	10.6%			
4i. Costs of practicing good corporate governance outweigh the benefits.	N	15	21	55	51	18	2.78	1.110	12
	%	9.4%	13.1%	34.4%	31.9%	11.3%			
4j. Poor financial and non-financial disclosure.	N	4	20	34	80	22	2.40	.960	6
	%	2.5%	12.5%	21.3%	50%	13.8%			
4k. Good relationship between the company and the external auditors.	N	8	19	42	56	35	2.43	1.108	7
	%	5%	11.9%	26.3%	35%	21.9%			

Table 7.26 Stakeholders Group Means and Kruskal–Wallis Tests Showing Respondents' Views Regarding the Possible Barriers

Statement	Group means position					Kruskal–Wallis Test	
	Manager	Board member	Audit committee	Accountants	Internal auditors	Sig.	Result
4a. Weak legal controls and law enforcement.	2.14	2.24	2.59	2.38	2.21	.543	Not significant
4b. Culture of the UAE community.	2.10	1.92	2.56	2.29	2.16	.080	Not significant
4c. Weak accounting and auditing profession.	2.43	2.04	2.56	2.40	2.16	.208	Not significant
4d. Poor-quality accounting and finance education.	2.19	1.92	2.62	2.62	2.26	.022	*
4e. Weak infrastructures of financial institutions.	2.62	2.24	2.79	2.33	2.32	.084	Not significant
4f. Lack of legal and regulatory systems that govern companies' activities.	2.33	2.16	2.53	2.31	2.32	.741	Not significant
4g. Government interference in business activities.	2.71	2.48	2.41	2.52	2.29	.663	Not significant
4h. State of the UAE economy.	2.62	2.84	2.56	2.83	2.45	.502	Not significant
4i. Costs of practicing good corporate governance outweigh the benefits.	2.52	2.80	2.53	3.10	2.76	.114	Not significant
4j Poor financial and non-financial disclosure.	2.33	2.40	2.24	2.43	2.55	.799	Not significant
4k. Good relationship between the company and the external auditors.	2.33	2.40	2.53	2.50	2.34	.962	Not significant

Note: The Kruskal–Wallis test shows whether there are any differences in the means of responses given by the groups for each question. *$p < 0.05$, **$p < 0.01$.

Table 7.27 Mann–Whitney Tests Showing Respondents' Views Regarding the Possible Barriers in the UAE

Statement	Manager (Sig.) with	Board member (Sig.) with	Audit committee (Sig.) with	Accountant (Sig.) with	Internal auditor (Sig.) with
4a. Weak legal controls and law enforcement.	No significant differences among groups				
4b. Culture of the UAE community.	No significant differences among groups				
4c. Weak accounting and auditing profession.	No significant differences among groups				
4d. Poor-quality accounting and finance education.		Audit committee ** Accountant **	Board member **	Board member**	
4e. Weak infrastructures of financial institutions.	No significant differences among groups				
4f. Lack of legal and regulatory systems that govern companies' activities.	No significant differences among groups				
4g. Government interference in business activities.	No significant differences among groups				
4h. State of the UAE economy.	No significant differences among groups				
4i. Costs of practicing good corporate governance outweigh the benefits.	No significant differences among groups				
4j. Poor financial and non-financial disclosure.	No significant differences among groups				
4k. Good relationship between the company and the external auditors.	No significant differences among groups				

Note: The Mann–Whitney test explains which particular pairs of group means are significantly different from each other. *$p < 0.05$, **$p < 0.01$.

7.6 Possible Enablers for the Implementation of Corporate Governance

This section investigates the fourth objective, which is possible enablers that could enhance the implementation of corporate governance in the UAE. To achieve this objective, the participants were given a list of enablers and asked to rate the extent to which these enablers could enhance the implementation of corporate governance practice in the UAE. The participants used a standard five-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree).

The results in Table 7.28 show that respondents agreed with the importance of all items in enhancing the implementation of corporate governance in UAE listed companies. Most items recorded percentages over 70% and mean scores above 4.00. Nearly nine out of 10 respondents ranked 'ensuring wide adoption of international accounting and auditing standards' (89.4%) and 'learning from the experiences of other countries concerning corporate governance practice' (87.5%) as the first and second enablers, with mean scores of 4.25 and 4.24 (SD = 0.718 and 0.759), respectively. Using training and other means of support was ranked third (mean = 4.23, SD = 0.693).

Table 7.28 shows that 73%–87% of the participants also agreed with the importance of the following statements (with mean scores between 4.16 and 4.20): initiating regional corporate governance partnership programs with international organisations such as the OECD; encouraging research in corporate governance in the UAE; participating in international events, conferences, meetings and committees dealing with corporate governance; enhancing professional accounting and auditing bodies; and developing incentive programs for compliance with the principles of corporate governance. The less important items included the following: establishing corporate governance education programs at universities and establishing an institute of directors for training, raising awareness and education for CEOs, directors and board (with mean scores below 4.00).

The Kruskal–Wallis test for question five showed that there were no significant differences (at $p < 0.05$) in the groups' answers to the following items: (5a) ensuring the wide adoption of international accounting and auditing standards ($p = 0.111$); (5b) using training and other means of support ($p = 0.739$); (5c) developing incentive programs for compliance with the principles of corporate governance ($p = 0.628$); (5d) establishing corporate governance education programs at universities ($p = .300$); (5f) enhancing professional accounting and auditing bodies ($p = 0.654$); (5g) participating in international events, conferences, meetings and committees dealing with corporate governance ($p = 0.166$); (5i) learning from the experiences of other countries concerning corporate governance practice ($p = 0.412$); and (5j) initiating regional corporate governance partnership programs with international organisations such as the OECD ($p = 0.095$).

In contrast, there were significant differences in the groups' answers to statements 5e and 5h. The Kruskal–Wallis test revealed significant differences in the groups' views about establishing an institute of directors for training, raising awareness and education for CEOs, directors and board members ($p = 0.042$). Mann–Whitney tests were conducted to investigate which group or groups differed regarding statement 5e. Table 7.29 shows that the managers and internal auditors had a significantly higher level of agreement with statement 5e (mean = 4.29 and 4.11, respectively) than the audit committee group (mean = 3.56) (see Table 7.29).

Although all groups agreed with encouraging research on corporate governance in the UAE, the Kruskal–Wallis test showed that there were statistically significant differences in the level of agreement between the five groups ($p = 0.037$). The Mann–Whitney test results in Table 7.30 indicate that managers have a significantly higher level of agreement (mean = 4.52) than the board members and accountants (mean = 4.00 and 4.05, respectively) (see Table 7.29).

Table 7.28 Frequency (N), Percentage Distribution (%), Mean and Standard Deviation (SD) of Responses Towards Statements on Possible Enablers for the Implementation of Corporate Governance

Statement	N/%	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	SD	Rank
5a. Ensuring wide adoption of international accounting and auditing standards.	N	1	2	14	82	61	4.25	.718	1
	%	.6%	1.3%	8.8%	51.3%	38.1%			
5b. Using training and other means of support.	N	1	0	18	83	58	4.23	.693	3
	%	.6%	0	11.3%	51.9%	36.3%			
5c. Developing incentive programs for compliance with principles of corporate governance.	N	0	1	21	89	49	4.16	.662	8
	%	0	.6%	13.1%	55.6%	30.6%			
5d. Establishing corporate governance education programs at universities.	N	10	4	28	64	54	3.93	1.085	10
	%	6.3%	2.5%	17.5%	40%	33.8%			
5e. Establishing an institute of directors for training, raising awareness and education for CEOs, directors and board members.	N	2	12	28	72	46	3.94	.935	9
	%	1.3%	7.5%	17.5%	45%	28.8%			
5f. Enhancing professional accounting and auditing bodies.	N	2	3	17	82	56	4.17	.787	7
	%	1.3%	1.9%	10.6%	51.3%	35%			
5g. Participating in international events, conferences, meetings and committees dealing with corporate governance.	N	3	1	15	89	52	4.18	.768	6
	%	1.9%	.6%	9.4%	55.6%	32.5%			
5h. Encouraging research into corporate governance in the UAE.	N	1	0	21	84	54	4.19	.702	5
	%	.6%	0	13.1%	52.5%	33.8%			
5l.Learning from the experiences of other countries concerning corporate governance practice.	N	1	3	16	76	64	4.24	.759	2
	%	.6%	1.9%	10%	47.5%	40%			
5j. Initiating regional corporate governance partnership programs with international organisations such as the OECD.	N	1	5	14	81	59	4.20	.775	4
	%	.6%	3.1%	8.8%	50.6%	36.9%			

Table 7.29 Stakeholders Group Means and Kruskal–Wallis Tests Showing Respondents' Views Regarding the Possible Enablers

Statement	Group means position					Kruskal–Wallis Test	
	Manager	Board member	Audit committee	Accountants	Internal auditors	Sig.	Result
5a. Ensuring wide adoption of international accounting and auditing standards.	4.43	4.28	4.32	3.95	4.39	.111	Not significant
5b. Using training and other means of support.	4.33	4.20	4.15	4.17	4.34	.739	Not significant
5c. Developing incentive programs for compliance with principles of corporate governance.	4.24	4.12	4.06	4.14	4.26	.628	Not significant
5d. Establishing corporate governance education programs at universities.	4.19	3.78	3.62	4.02	4.03	.300	Not significant
5e. Establishing an institute of directors for training, raising awareness and education for CEOs, directors and board members.	4.29	3.80	3.56	3.95	4.11	.042	*
5f. Enhancing professional accounting and auditing bodies.	4.33	4.20	4.18	4.14	4.08	.654	Not significant
5g. Participating in international events, conferences, meetings and committees dealing with corporate governance.	4.48	4.08	4.03	4.21	4.11	.166	Not significant
5h. Encouraging research into corporate governance in the UAE.	4.52	4.00	4.21	4.05	4.26	.037	*
5i.Learning from the experiences of other countries concerning corporate governance practice.	4.33	4.08	4.24	4.17	4.39	.412	Not significant
5j. Initiating regional corporate governance partnership programs with International organisations such as the OECD.	4.52	4.16	4.06	4.10	4.29	.095	Not significant

Note: The Kruskal–Wallis test shows whether there are any differences in the means of responses given by the groups for each question. *$p < 0.05$, **$p < 0.01$.

Table 7.30 Mann–Whitney Tests Showing Respondents' Views Regarding the Possible Enablers in the UAE

Statement	Manager (Sig.) with	Board member (Sig.) with	Audit committee (Sig.) with	Accountant (Sig.) with	Internal auditor (Sig.) with
5a. Ensuring wide adoption of international accounting and auditing standards.	No significant differences among groups				
5b. Using training and other means of support.	No significant differences among groups				
5c. Developing incentive programs for compliance with principles of corporate governance.	No significant differences among groups				
5d. Establishing corporate governance education programs at universities.	No significant differences among groups				
5e. Establishing an institute of directors for training, raising awareness and education for CEOs, directors and board members.	Audit committee *		Manager * Internal auditor *		Audit committee *
5f.Enhancing professional accounting and auditing bodies.	No significant differences among groups				
5g. Participating in international events, conferences, meetings and committees dealing with corporate governance.	Board member ** Accountant *	Manager **		Manager *	
5h. Encouraging research into corporate governance in the UAE.	No significant differences among groups				
5i.Learning from the experiences of other countries concerning corporate governance practice.	No significant differences among groups				
5j. Initiating regional corporate governance partnership programs with International organisations such as the OECD.	No significant differences among groups				

Note: The Mann–Whitney test explains which particular pairs of group means are significantly different from each other. $*p < 0.05$, $**p < 0.01$.

7.7 Conclusion

The primary objective of this part of the study was to explore the views and perceptions of different groups of UAE stakeholders regarding corporate governance in the UAE. The primary data were obtained from questionnaires designed to achieve this objective. Five groups were selected to respond to a survey questionnaire: CEOs/managers, board members, audit committee members, accountants and internal auditors. The survey sample represented a particular group having an interest in the corporate governance of UAE-listed companies and charged with the responsibility of corporate governance within these companies. An important limitation of this focus was that it did not address the views of a wide range of other stakeholders who had an interest in the corporate governance of these companies, such as regulators, investors, foreign corporate partners or consumers. The data were analysed using the SPSS package, the Kruskal–Wallis test to identify any significant differences between groups and the Mann–Whitney test to identify which differences were statistically significant. The questionnaire was divided into five related sections, and each section consisted of one or more questions. In general, most statements in the questionnaire were supported by respondents.

The questionnaire data presented the age, job position, education background, academic discipline and work experience of the survey respondents. Analysis of the collected data shows support, in general, for most of the items presented in the questionnaire. Most respondents agreed that the appropriate definition of corporate governance is in terms of an organisation's relationship with all stakeholders who are affected by or who affect the company's operations and decisions. In relation to the significance of the implementation of good corporate governance in UAE companies to specific parties, the results indicated that most respondents in this survey agreed on the need for, and benefits of, corporate governance for all parties listed in this question. The main results of the implementation of corporate governance principles in this study indicate that most participants agreed, with varying degrees, with the implementation of corporate governance principles for listed companies in the UAE.

Regarding possible barriers that might affect corporate governance practice, the results suggested that, in general, all of the possible barriers that respondents were asked about were considered important. Finally, in relation to the primary enablers enhancing the practice of good corporate governance in listed companies in the UAE, the survey results indicated that, in general, respondents from all groups agreed in principle that all of the items listed could improve the practice of effective corporate governance in the UAE. Despite general agreement in opinions among respondents, there were some significant differences regarding certain items in the questionnaire; these differences were mainly in the degree of emphasis among the selected groups that participated in this study. This may be due to different demographics of respondents such as age, gender, job position, education, discipline and experience. The responses of stakeholder groups where there was strongly agreement are summarised in Table 7.31. The responses of stakeholder groups where there was moderate agreement are summarised in Table 7.32. The responses of stakeholder groups where stakeholders disagreed are summarised in Table 7.33.

Table 7.31 Summary of the Stakeholder Groups' Answers: Strong Agreement

Statement	**Stakeholder groups**				
	Managers	**Board members**	**Audit committee members**	**Accountants**	**Internal auditors**
1b. Corporate governance refers to an organisation's relationship with all stakeholders who are affected by or affect the organisation's operations and decisions.		✓			
2a. Shareholders.	✓	✓	✓	✓	✓
2b. Investors.	✓	✓	✓	✓	✓
2c. Managers/CEOs.	✓	✓	✓		✓
2d. Employees.	✓				✓
2e. Creditors.	✓	✓	✓	✓	✓
2f. Government.	✓	✓	✓		✓
2g. Customers.			✓		
2h. Auditors.		✓			
a2. Shareholders have the right to participate in company profits.	✓		✓	✓	✓
a3. Shareholders have the right to obtain information related to the company regularly.	✓	✓	✓		✓
a4. Shareholders have the right to vote in general meetings.	✓	✓	✓		
a5. Shareholders are able to vote in elections and remove members of the board of directors.	✓		✓		
a6. Shareholders are provided with adequate and timely information about company meetings.	✓	✓	✓		
a7. Shareholders have the right to discuss the external auditor's report at the Annual General Meeting.	✓		✓		✓
a8. Details about the capital structure of your company are disclosed to shareholders.		✓	✓		
a9. Shareholders have the right to be informed on decisions concerning fundamental corporate changes.		✓	✓		
b1. All shareholders who are from the same class are treated equally.		✓			
d1. The financial and operating results of the company are disclosed.	✓	✓	✓		✓
d2. The objectives of the company are disclosed.	✓	✓			✓
d3. Major share ownership is disclosed.	✓	✓	✓		
d7. An annual audit of the company is conducted by an independent auditor.	✓	✓	✓		✓
d8. Information is prepared and disclosed in accordance with International Accounting Standards.	✓	✓	✓		✓
d9. Channels for the dissemination of information on a timely basis to relevant users are provided.	✓		✓		
e1. Board members act in the best interests of the company and the shareholders.	✓	✓			✓
e4. The board of directors elects, monitors and replaces	✓				

executives when necessary.					
e7. Board members are provided with accurate relevant information about the company.	✓		✓	✓	✓
e8. The board has approved a strategic plan for the company.	✓				
5a. Ensuring wide adoption of international accounting and auditing standards.	✓	✓	✓		✓
5b. Using training and other means of support.	✓	✓	✓	✓	✓
5c. Developing incentive programs for compliance with principles of corporate governance.	✓	✓	✓	✓	✓
5d. Establishing corporate governance education programs at universities.	✓			✓	✓
5e. Establishing an institute of directors for training, raising awareness and education for CEOs, directors and board members.	✓				✓
5f. Enhancing professional accounting and auditing bodies.	✓	✓	✓	✓	✓
5g. Participating in international events, conferences, meetings and committees dealing with corporate governance.	✓	✓	✓	✓	✓
5h. Encouraging research into corporate governance in the UAE.	✓		✓	✓	✓
5l. Learning from the experiences of other countries concerning corporate governance practice.	✓	✓	✓	✓	✓
5j. Initiating regional corporate governance partnership programs with international organisations such as the OECD.	✓	✓	✓	✓	✓

Table 7.32 Summary of the Stakeholder Groups' Answers: Moderate Agreement

Statement	**Stakeholder groups**				
	Managers	**Board members**	**Audit committee members**	**Accountants**	**Internal auditors**
1a. Corporate governance refers to an organisation's relationship with its shareholders to ensure that it acts in accordance with the interests of those shareholders	✓	✓	✓	✓	✓
1b. Corporate governance refers to an organisation's relationship with all stakeholders who are affected by or affect the organisation's Operations and decisions.	✓		✓	✓	✓
1c. Corporate governance refers to an organisation's relationship with all members of society, irrespective of whether they affect or are affected by the organisation's operations and decisions.	✓		✓		✓
2c. Managers/CEOs.				✓	
2d. Employees.		✓	✓	✓	
2f. Government.				✓	
2g. Customers.	✓	✓		✓	✓
2h. Auditors.	✓		✓	✓	✓
2i. Local community.	✓	✓	✓	✓	✓
a1. Ownership transfer among shareholders is facilitated.	✓	✓	✓	✓	✓
a2. Shareholders have the right to participate in company profits.		✓			
a3. Shareholders have the right to obtain information related to the company regularly.				✓	
a4. Shareholders have the right to vote in general meetings.				✓	✓
a5. Shareholders are able to vote in elections and remove members of the board of directors.		✓		✓	✓
a6. Shareholders are provided with adequate and timely information about company meetings.				✓	✓
a7. Shareholders have the right to discuss the external auditor's report at the Annual General Meeting.		✓		✓	
a8. Details about the capital structure of your company are disclosed to shareholders.	✓			✓	✓
a9. Shareholders have the right to be informed on decisions concerning fundamental corporate changes.	✓			✓	✓
b1. All shareholders who are from the same class are treated equally.	✓		✓	✓	✓
b2. Shareholders have the right to obtain information	✓	✓	✓	✓	✓

about voting rights before they purchase shares.					
b3. Processes and procedures for general shareholder meetings allow for equitable treatment of all shareholders.	✓	✓	✓	✓	✓
b4. Minority shareholders are protected from insider trading.	✓	✓	✓	✓	✓
b5. There are means to remove the obstacles of cross-border voting.	✓	✓	✓		✓
b6. Board members and key executives disclose material interests in any transaction or matter directly affecting the company.	✓	✓	✓	✓	✓
c1. Stakeholder rights that are established by law are respected by the company.	✓	✓	✓	✓	✓
c2. Performance-enhancing mechanisms for employee participation are permitted to develop.	✓	✓	✓	✓	✓
c3. Stakeholders have the opportunity to obtain effective redress for violation of their rights.	✓	✓	✓	✓	✓
c4. Stakeholders have the right to obtain sufficient and reliable information on a timely basis.	✓	✓	✓	✓	✓
c5. Stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the board.	✓	✓	✓	✓	✓
c6. An effective corporate governance framework enforces creditor rights.	✓	✓	✓	✓	✓
d1. The financial and operating results of the company are disclosed.				✓	
d2. The objectives of the company are disclosed.			✓	✓	
d3. Major share ownership is disclosed.				✓	✓
d4. Foreseeable risk factors are disclosed.	✓	✓	✓	✓	✓
d5. Remuneration of board members and key executives is disclosed.	✓	✓	✓	✓	✓
d6. Issues regarding employees and other stakeholders, such as programs for human resource development and training, are disclosed.	✓	✓	✓	✓	✓
d7. An annual audit of the company is conducted by an independent auditor.				✓	
d8. Information is prepared and disclosed in accordance with International Accounting Standards.				✓	
d9. Channels for the dissemination of information on a timely basis to relevant users are provided.		✓		✓	✓
e1. Board members act in the best interests of the company and the shareholders.			✓	✓	
e2. The board takes stakeholders' interests into account.	✓	✓	✓	✓	✓
e3. The board monitors the effectiveness of the company's governance practices.	✓	✓	✓	✓	✓
e4. The board of directors elects, monitors and replaces executives when necessary.		✓	✓	✓	✓
e5. The board monitors and manages potential conflicts of interest of management, board members and shareholders.	✓	✓	✓	✓	✓
e6. The board supervises the process of disclosure and communication.	✓	✓	✓	✓	✓
e7. Board members are provided with accurate relevant information about the company.		✓			
e8. The board has approved a strategic plan for the company.		✓	✓	✓	✓
e9. Board members are able to devote sufficient time to their responsibilities.	✓	✓	✓	✓	✓
4a. Weak legal controls and law enforcement.	✓	✓	✓	✓	✓
4b. The culture of the UAE community.	✓	✓	✓	✓	✓
4c. Weak accounting and auditing profession.	✓	✓	✓	✓	✓
4d. Poor-quality accounting and finance education.	✓	✓	✓	✓	✓
4e. Weak infrastructures of financial institutions.	✓	✓	✓	✓	✓
4f. Lack of legal and regulatory systems that govern companies' activities.	✓	✓	✓	✓	✓
4g. Government interference in business activities.	✓	✓	✓	✓	✓
4h. State of the UAE economy.	✓	✓	✓		✓
4i. Costs of practicing good corporate governance outweigh the benefits.	✓	✓	✓		✓
4j. Poor financial and non-financial disclosure.	✓	✓	✓	✓	✓
4k. Good relationship between the company and the external auditors.	✓	✓	✓	✓	✓

5a. Ensuring wide adoption of international accounting and auditing standards.				✓	
5d. Establishing corporate governance education programs at universities.		✓	✓		
5e. Establishing an institute of directors for training, raising awareness and education for CEOs, directors and board members.		✓	✓	✓	
5h. Encouraging research into corporate governance in the UAE.		✓			

Table 7.33 Summary of the Stakeholder Groups' Answers: Disagree

Statement	**Stakeholder groups**				
	Managers	**Board members**	**Audit committee members**	**Accountants**	**Internal auditors**
1c. Corporate governance refers to an organisation's relationship with all members of society, irrespective of whether they affect or are affected by the organisation's operations and decisions.		✓		✓	
b5. There are means to remove the obstacles of cross-border voting.				✓	
4i . Costs of practicing good corporate governance outweigh the benefits.				✓	

These results were related to three objectives of this study: identify corporate governance as understood in the UAE context; examine stakeholders' perceptions about corporate governance principles in listed companies in the UAE; and identify the possible obstacles to, and enablers of, the implementation of good corporate governance in the UAE. Therefore, this empirical component of the study extends the literature and makes a significant contribution to knowledge. The next chapter will examine the relationship between corporate governance practice and the performance of listed companies in the UAE.

Chapter 8: Relationship between Corporate Governance and Firm Performance

8.1 Introduction

The previous chapter presented the analysis and findings obtained from the questionnaire survey that aimed to answer the research questions concerning corporate governance practice in the UAE. This chapter will present the analysis and findings obtained from the secondary data. The main objective of this study is to empirically examine the relationship between corporate governance practice (corporate governance principles and corporate governance mechanisms) and the performance of listed companies in the UAE in 2010 and 2011. An in-depth investigation of the relationship between corporate governance practice and the performance of listed companies in the UAE will be presented.

Two empirical research models were adopted to test the hypotheses. The first model is a part of the empirical work aimed at investigating the relationship between the corporate governance principles index and the performance of listed companies in the UAE. The second model examines the relationship between corporate governance mechanisms (board size, board composition, leadership structure and audit committee independence) and firm performance according to UAE companies' annual reports. In addition, control variables such as firm size and leverage were included in the two models.

The structure of this chapter is as follows. Section 8.2 reports the descriptive statistics for the first model. This is followed by the correlation analysis of the first model in Section 8.3. Descriptive statistics for the second model of the study are presented in Section 8.4, followed by the correlation analysis of the second model in Section 8.5 and multicollinearity in Section 8.6. Section 8.7 provides the results of the regression analysis for the two models.

8.2 Descriptive Statistics for the First Model

This section provides the descriptive statistics for all observations, including the mean, minimum, maximum, skewness and kurtosis for each variable. The descriptive statistics for the first model, the corporate governance principles index variables, consist of the rights of shareholders sub-index, equitable treatment of shareholders sub-index, role of stakeholders in corporate governance sub-index, disclosure and transparency sub-index, and responsibility of the board of directors' sub-index, which are presented in Table 8.1. The mean of the two years was used to obtain the values for the dependent variables (firm performance) in Table 8.2. In addition, the firm characteristics (size of firm and leverage) of listed companies in the UAE are presented in Table 8.3.

8.2.1 Corporate governance index

Table 8.1 presents the descriptive statistics for the CGI and the five sub-indexes based on the OECD Corporate Governance Principles (2004). The CGI ranges from one to five. The sample is drawn from listed companies during 2012. The five sub-indexes are the rights of shareholders (RSH), equitable treatment of shareholders (ETSH), role of stakeholders (TRSH), disclosure and transparency (DT), and board responsibilities (RBD). The data, containing 160 observations, were collected via a questionnaire.

As shown in Table 8.1, shareholders' rights represent the highest score compared to other principles, with a mean score of 3.96, indicating that shareholders' rights are protected in listed companies in the UAE. The disclosure and transparency index follows, with a mean score of 3.92. In contrast, the equitable treatment of shareholders represents the lowest score, with a mean of 3.57. In general, the average CGI is 3.81 (SD = 0.227) of the examined questionnaire items.

In Table 8.1, the statistics reveal that the maximum implementation of a principle level is represented by the shareholders' rights and the equitable treatment of shareholders, with a score of 4.56. In contrast, among all of the corporate governance categories, the minimum implementation principle is by two principles, equitable treatment of shareholders and role of stakeholders in corporate governance, with scores of 2.56 and 2.89. Overall, the maximum average CGI is 4.25, while the minimum average governance index is 3.15, indicating significant variation in corporate governance practices among the sample companies.

The descriptive statistics show the normality of the CGI and sub-index data. It is observed that equitable treatment of shareholders represents a maximum standard skewness of -0.175, while the disclosure and transparency sub-index shows a minimum standard skewness of -0.654. This indicates that the minimum and maximum skewness are within the normally distributed range of ±1.0 (Mohamad & Sulong, 2010). In addition, the data are considered normally distributed if the standard kurtosis statistics fall within the range of ±1.0 (Wan & Sulong, 2010). Accordingly, in terms of the standard kurtosis statistics, the equitable treatment of shareholders shows a maximum standard kurtosis of 0.790, and the shareholders' rights show a minimum standard kurtosis of -0.467. Therefore, the CGI represents a standard skewness of .668 and kurtosis of 0.949. This shows that the CGI data are normally distributed.

Table 8.1 Descriptive Statistics of Corporate Governance Index and Sub-Indexes

Variable	Mean	Std Dev.	Min.	Max.	Skewness	Kurtosis
Rights of shareholders	3.96	0.273	3.41	4.56	-0.176	-0.467
Equitable treatment of shareholders	3.57	0.394	2.56	4.56	-0.175	0.790
Role of stakeholders in corporate governance	3.64	0.368	2.89	4.39	-0.375	0.136
Disclosure and transparency	3.92	0.273	3.22	4.42	-0.654	-0.074
Responsibility of board of directors	3.84	0.300	3.18	4.44	-0.263	-0.017
CGI	**3.81**	**0.233**	**3.15**	**4.25**	**0.668**	**0.949**

8.2.2 Descriptive statistics for firm performance

Table 8.2 shows the descriptive statistics for firm performance measures, the accounting-based measures of ROE and ROA, and the market-based measure of firm performance, Tobin's Q, in the first model. The mean value for ROA is 5.478%, with a minimum of 0.41% and a maximum of 16.81%. The ROE averages around 11.40%, with a minimum value of 0.40% and a maximum value of 25.20%. The mean value for Tobin's Q is 1.11, with a minimum value of 0.19 and a maximum value of 2.22. Tobin's Q measures market performance. A Tobin's Q value of more than 1 represents a positive investment opportunity. Finally, these results indicate that corporate performance measured by all three measures is positive with respect to corporate governance practice in listed companies in the UAE.

The descriptive statistics show that the presented data are not normally distributed. It is observed that the standard skewness of ROA is 1.055, which exceeds the range of ±1.0, indicating that the data are not normally distributed (Mohamad & Sulong, 2010). This result is confirmed by the standard kurtosis statistics, where the standard kurtosis of Tobin's Q exceeds the normality range of ±1.0 (see Mohamad & Sulong, 2010), indicating that such data are not normally distributed. Therefore, more attention is required in the analysis of such non-parametric data and the interpretation of the results.

Table 8.2 Descriptive Statistics of Firm Performance in the First Model

Variable	Mean	Std Dev.	Min.	Max.	Skewness	Kurtosis
ROA	5.478	4.119	0.46	16.81	1.055	0.759
ROE	11.40	5.748	0.48	25.20	0.123	-0.069
Tobin's Q	1.11	0.363	0.19	2.22	0.534	1.791

8.2.3 Descriptive statistics for the control variables

Table 8.3 shows the descriptive statistics for the corporate characteristics being controlled. It can be observed that the mean firm size is US 3.35 billion, with a minimum of US 0.015 billion and a maximum of US 24.7 billion. Leverage has a mean of 0.49 and the greatest variation, ranging from a minimum of 0.01 to a maximum of 0.89. There appears to be variation between the maximum and minimum values among most of the companies' leverage. This result is expected, reflecting the effect of examining a wide range of companies of different sizes.

Table 8.3 Descriptive Statistics of Control Variables in the First Model

Variable	Mean	Std Dev.	Min.	Max.	Skewness	Kurtosis
Total assets	3.35	0.632	0.015	24.67	2.462	4.873
Leverage	0.49	0.245	0.01	0.89	-0.131	-0.856

Regarding the standard skewness and kurtosis statistics, the presented data are not normally distributed for firm size. The standard skewness and kurtosis of total assets exceed the range of ±1 (see Table 8.3). However, it is observed that the standard skewness and kurtosis for leverage do not exceed the normality range of ±1 (see Mohamad & Sulong, 2010), indicating that such data are normally distributed. Consequently, a robust analysis is necessary for any hypotheses test related to the entire data set.

8.3 Correlation Analysis of the First Model

Correlation analysis was carried out to detect any multicollinearity between the CGI and corporate characteristics (firm size and leverage). This bivariate analysis was undertaken using the Pearson correlation and Spearman's rank correlation. Both parametric and non-parametric tests were used to examine the required relationships to allow for the non-normality of some of the variables used to examine the corporate governance sub-index with firm performance measures and control variables. In addition, correlation coefficients also aimed to attest to the construct validity of the CGI, and the Pearson and Spearman's rank correlation coefficients indicated the association between each sub-index and the overall CGI. The results of the analysis are outlined below.

8.3.1 Pearson correlation analysis of the CGI and sub-indexes

According to the correlation coefficients, illustrated in Table 8.4, there is a correlation between the CGI with all sub-indexes, rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and responsibility of the board of directors at $p < 0.01$ (Pearson's correlation coefficient = 0.688, 0.824, 0.729, 0.862 and 0.626, respectively). Rights of shareholders is significantly correlated with equitable treatment of shareholders and disclosure and transparency at $p < 0.01$ (Pearson's correlation coefficient = 0.417 and 0.646), but is not correlated with role of stakeholders in corporate governance and responsibility of the board of directors.

The results also confirm a significant positive association between equitable treatment of shareholders and role of stakeholders at $p < 0.01$ (Pearson's correlation coefficient = 0.671), disclosure and transparency at $p < 0.1$ (Pearson's correlation coefficient = 0.651) and responsibility of the board of directors at $p < 0.05$ (Pearson's correlation coefficient = 0.368). Further, both role of stakeholders and disclosure and transparency have a significant relationship with responsibility of the board of directors at $p < 0.05$ (Pearson's correlation coefficient = 0.328 and 0.331, respectively). Nevertheless, there is an insignificant relationship between role of stakeholders and disclosure and transparency.

Table 8.4 Pearson Correlation Analysis of the CGI and Sub-Indexes

Variable	Rights of shareholders	Equitable treatment of shareholders	Role of stakeholders in corporate governance	Disclosure and transparency	Responsibility of board of directors	CGI
Rights of shareholders	1					
Equitable treatment of shareholders	0.417**	1				
Role of stakeholders in corporate governance	0.246	0.671**	1			
Disclosure and transparency	0.646**	0.651****	0.596	1		
Responsibility of board of directors	0.219	0.368*	0.328*	0.331*	1	
Corporate governance index	0.688**	0.824**	0.729**	0.862**	0.626**	1

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)
*** Correlation is significant at the 0.10 level (2-tailed)

8.3.2 Pearson correlation analysis of the corporate governance sub-indexes and control variables

Table 8.6 presents the correlation for the corporate governance sub-indexes and the control variables used in the first model. This analysis was carried out to observe the negative or positive relationship among all variables. The correlation coefficients in Table 8.6 show that there is a significant negative correlation between role of stakeholders and total assets at $p < 0.10$ (Pearson's correlation coefficient = -0.282), but four sub-indexes (rights of shareholders, equitable treatment of shareholders, disclosure and transparency, and responsibility of the board of directors) have no association with total assets. This study also documents that no significant relationship is detected between leverage and each corporate governance sub-index at the 0.05, 0.01 and 0.10 confidence levels.

Table 8.5 Pearson Correlation Analysis of the Corporate Governance Sub-Indexes and Control Variables

Variable	Rights of shareholders	Equitable treatment of shareholders	Role of stakeholders in corporate governance	Disclosure and transparency	Responsibility of board of directors	Total assets	Leverage
Rights of shareholders	1						
Equitable treatment of shareholders	0.417**	1					
Role of stakeholders in corporate governance	0.246	0.671**	1				
Disclosure and transparency	0.646**	0.651**	0.596**	1			
Responsibility of board of directors	0.219	0.368*	0.328*	0.331*	1		
Total asset	-0.081	-0.168	-.282***	-0.216	0.016	1	
Leverage	-0.005	-0.072	-.127	-0.080	0.112	0.588**	1

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)
*** Correlation is significant at the 0.10 level (2-tailed)

8.3.3 Pearson correlation analysis of the firm performance and corporate governance sub-indexes

Table 8.5 shows the results of the Pearson correlation of financial performance with the independent variables. ROA is positively correlated at the $p < .05$ confidence level with equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibility of the board of directors (Pearson's correlation coefficient = 0.385, 0.361, 0.340 and 0.330, respectively). However, the findings disclose that there is no significant correlation between ROA and rights of shareholders, which should be considered not significantly correlated at the 0.05, 0.01 and 0.10 confidence levels.

According to the results of the Pearson correlation, ROE is positively correlated at $p < 0.01$ with equitable treatment of shareholders, disclosure and transparency, and responsibility of the board of directors (Pearson's correlation coefficient = 0.463, 0.419 and 0.423, respectively). Further, this was positively correlated with role of stakeholders at $p < .05$ (Pearson's correlation coefficient = 0.344). Further, ROE is associated with rights of shareholders at $p < 0.1$ (Pearson's correlation coefficient = 0.274).

Tobin's Q is positively correlated at $p < 0.01$ with rights of shareholders, equitable treatment of shareholders, and disclosure and transparency (Pearson's correlation coefficient = 0.420, 0.554 and 0.560, respectively). Tobin's Q is also positively linked with role of stakeholders and responsibility of the board of directors at $p < 0.05$ (Pearson's correlation coefficient = 0.341 and 0.328, respectively).

Table 8.6 Pearson Correlation Analysis of the Firm Performance and Corporate Governance Sub-Index

Variable	Rights of shareholders	Equitable treatment of shareholders	Role of stakeholders in corporate governance	Disclosure and transparency	Responsibility of board of directors	ROA	ROE	Tobin's Q
Rights of shareholders	1							
Equitable treatment of shareholders	0.417**	1						
Role of stakeholders in corporate governance	0.246	0.671**	1					
Disclosure and transparency	0.646**	0.651**	0.596**	1				
Responsibility of board of directors	0.219	0.368*	0.328*	0.331*	1			
ROA	0.172	0.385*	0.361*	0.340*	0.330*	1		
ROE	0.274***	0.463**	0.344*	0.419**	0.423**	.764***	1	
Tobin's Q	0.420**	0.554**	0.341*	0.560**	0.328*	0.181	0.292***	1

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)
*** Correlation is significant at the 0.10 level (2-tailed)

8.3.4 Pearson correlation analysis of the CGI and control variables

Table 8.7 shows the correlation of the CGI with the control variables, total assets and leverage. The results reveal that there is no significant correlation between the CGI and two control variables (company size and leverage), but there is a significant positive correlation between total assets and leverage at $p < 0.01$ (Pearson's correlation coefficient = 0.588). The Pearson correlation reported in Table 8.7 indicates that the multicollinearity problem is not present in the first model. The absence of the multicollinearity issue in the data is confirmed by the collinearity diagnostic results—VIF and tolerance (TOL)—reported in Table 8.20.

Table 8.7 Pearson Correlation Analysis of CGI and Control Variables

Variable	CGI	Total assets	Leverage
CGI	1		
Total assets	-0.182	1	
Leverage	-0.031	0.588**	1

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)
*** Correlation is significant at the 0.10 level (2-tailed)

8.3.5 Pearson correlation analysis of the firm performance with the control variables

Firm size and leverage were used as the control variables in the analysis of the correlation among variables. ROA shows a positive negative correlation with ROE performance, total assets and leverage at $p < 0.01$ (Pearson's correlation coefficient = 0.764, 0.516 and 0.411), while total assets have a negative relationship with ROE and Tobin's Q, but is not significant. In addition, Tobin's Q shows a significant positive correlation with ROE at the level of $p < 0.10$. Table 8.8 shows the results of this correlation.

Table 8.8 Pearson Correlation Analysis of the Firm Performance with the Control Variables

Variable	ROA	ROE	Tobin's Q	Total assets	Leverage
ROA	1				
ROE	0.764**	1			
Tobin's Q	0.181	0.292***	1		
Total assets	0.516**	-0.134	-0.212	1	
Leverage	0.411**	0.199	0.046	0.588**	1

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)
*** Correlation is significant at the 0.10 level (2-tailed)

8.3.6 Pearson correlation analysis of the CGI and firm performance

The correlation between the CGI and the three different firm performance measures (ROA, ROE and Tobin's Q) is shown in Table 8.9. The Pearson correlation coefficients indicate that there is a significant relationship between the CGI and all firm performance measures, including ROA, ROE and Tobin's Q. The CGI has a positive correlation with ROA at $p < 0.01$ (Pearson's correlation coefficient = 0.419), ROE (Pearson's correlation coefficient = 0.520) and market value (Tobin's Q) (Pearson's correlation coefficient = 0.597).

Table 8.9 Pearson Correlation Analysis of CGI and Firm Performance

Variable	**CGI**	**ROA**	**ROE**	**Tobin's Q**
CGI	1			
ROA	0.419**	1		
ROE	0.520**	0.764**	1	
Tobin's Q	0.597**	0.181	0.292	1

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)
*** Correlation is significant at the 0.10 level (2-tailed)

8.3.7 Spearman's correlation analysis of the CGI, firm performance and control variables

The Spearman's correlations for all variables used in the first model are presented in Table 8.10. The independent variables are measured by the CGI and three proxies for firm performance, ROA, ROE and Tobin's Q, and the control variables (total assets and leverage). In general, the overall correlation shows that the CGI has a relationship with ROA, ROE and Tobin's Q, and the governance index is negatively correlated with related control variables.

The CGI is significantly correlated with all firm performance measures (ROA, ROE and Tobin's Q) at $p < 0.01$, and the range of Spearman's correlation coefficient is between 0.493 and 0.597. In addition, the governance index is negatively correlated with total assets and leverage, but not significantly at any confidence level ($p < .01$, .05 and 0.1). ROA is significantly and positively correlated with ROE at $p < 0.01$ (Spearman's correlation coefficient = 0.710), and there is a relationship between Tobin's Q and the other two measures of firm performance—ROA and ROE—at $p < 0.10$ and 0.05 (Spearman's correlation coefficient = 0.300 and 0.363, respectively).

Table 8.10 Spearman's Correlation Analysis of CGI, Firm Performance and Control Variables

Variable	CGI	ROA	ROE	Tobin's Q	Total assets	Leverage
CGI	1					
ROA	0.536**	1				
ROE	0.493**	0.710**	1			
Tobin's Q	0.597**	0.300***	0.363*	1		
Total assets	-0.185	-0.577**	-0.170	-0.215	1	
Leverage	-0.134	-0.447**	0.142	-0.028	0.611**	1

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)
*** Correlation is significant at the 0.10 level (2-tailed)

Total assets is not significantly correlated with ROE and Tobin's Q, but total assets has a negative correlation with ROA at $p < 0.\ 10$ (Spearman's correlation coefficient = -0.447). Leverage is also significantly negatively correlated with ROA at $p < 0.01$ (Spearman's correlation coefficient = -0.447). A positive correlation between total assets and leverage is found to be significant at $p < 0.01$ (Spearman's correlation coefficient = 0.611). In Table 8.10, the correlation coefficients show that the highest correlation between continuous variables is 0.611, which is between total assets and leverage. Further tests reveal that VIF is below 10 for all variables, thus confirming that multicollinearity is not an issue (see Table 8.19).

8.4 Descriptive Statistics for the Second Model

In this part, descriptive statistics and univariate analyses are shown for all observations, including the mean, minimum, maximum, skewness and kurtosis, for each variable in the second model. Each corporate governance mechanism variable of the study (board size, composition of the board, leadership structure and audit committee independence) is presented in this section. The descriptive statistics for the dependent variables in the second model present firm performance (ROA, ROE and Tobin's Q). In addition, the descriptive statistics for the control variables in the second model are presented in this part of the chapter. Data from 2010 to 2011 were collected for governance mechanisms, along with the performance and control variables from annual reports. A summary of the descriptive statistics for these variables is presented below.

8.4.1 Corporate governance mechanisms

Descriptive statistics were performed for each corporate governance mechanism. The results of the descriptive statistics are shown in Table 8.11.

Table 8.11 Descriptive Statistics of Corporate Governance Mechanisms

Variable	Mean	Std Dev.	Min.	Max.	Skewness	Kurtosis
Board size	7.64	1.885	5	15	0.862	1.536
Leadership	0.80	0.401	0.00	1	-1.514	0.296
Board composition	0. 69	0.174	0.33	1	-0.522	-0.769
Audit committee	0.76	0.149	0.40	1	0.585	-0.567

Table 8.11 shows the descriptive statistics for the different corporate governance mechanisms examined in explaining the variability in firm performance. The mean score of board size is 7.64, and the mean board composition is 69%, indicating that two-thirds of the directors are non- executive, which is in line with the UAE Code of Corporate Governance. The mean leadership structure is 0.80, reflecting compliance by a majority of the sample companies with the Code of Corporate Governance guideline for separating the CEO and chairman roles. With respect to board committees, the mean presence of independent audit committee members is 0.76, indicating that a majority of the sample companies have implemented such committees, which in turn highlights the emphasis placed by the listed companies on corporate governance. These means reveal the relatively high degree of independence among audit committee members.

In addition, the maximum average of non-executives on the board is 1.00, while the minimum average board composition is 0.33, indicating great variation in the composition of board practices among the listed companies. The statistics reveal that the maximum board size is 15, while the minimum is five, indicating that all listed companies have at least five board members. In addition, the maximum average for leadership structure is 1, indicating that at least one company does not separate the chairman and CEO roles. The minimum of the independent proportion of the audit committee is 0.40, and the maximum is 1.00, indicating that the most listed companies have at least 40% independent audit committee members, and at least one company in the sample has 100% independent audit committee members.

Concerning the standard skewness statistics, the presented data are not normally distributed. It is observed that leadership structure represents a minimum standard skewness of -1.514, while board size represents a maximum standard skewness of 0.862. Leadership structure, at -1.514, exceeds the range of ±1.0, indicating no normality of the data (see Mohamad & Sulong, 2010). This result is confirmed by the standard kurtosis statistics, where the standard kurtosis of the board size exceeds the normality range of ±1.0 (see Mohamad & Sulong, 2010). Board size shows a maximum standard kurtosis of 1.536, and leadership structure shows a minimum standard kurtosis of -0.769, indicating that the data are not normally distributed. Hence, robust analysis is necessary for any hypothesis test related to the entire data set.

8.4.2 Descriptive statistics for firm performance in the second model

Table 8.12 shows the descriptive statistics for the firm performance measures, the accounting-based measures of ROE and ROA and the market-based measure of firm performance, Tobin's Q. The mean value for ROA is 3.69%, with a minimum of -16.48% and a maximum of 24%. The ROE averages around 7.86%, with a minimum value of -21.45% and a maximum value of 36.41%. The mean value for Tobin's Q is 1.08, with a minimum value of 0.08 and a maximum value of 3.15. As stated in the methodology chapter, Tobin's Q measures market performance. Finally, these results indicate that corporate performance, measured by all three ratios over the two years, is positive with respect to the corporate governance practices in listed companies in the UAE.

Table 8.12 Descriptive Statistics of Corporate Governance Mechanisms

Variable	Mean	Std Dev.	Min.	Max.	Skewness	Kurtosis
ROA	3.69	5.185	-16.48	24.81	-0.180	3.791
ROE	7.86	8.072	-21.45	36.41	-.594	2.529
Tobin's Q	1.08	0.515	0.08	3.15	1.446	2.970

The descriptive statistics show that the firm performance data is not normally distributed. The standard skewness of Tobin's Q is 1.446, which exceeds the normality range of ±1.0. In addition, the standard kurtosis for all firm performance measures exceeds the normality range of ±1.0 (see Mohamad & Sulong, 2010), indicating that the data are not normally distributed.

8.4.3 Descriptive statistics for the control variables in the second model

Table 8.13 shows the descriptive statistics for the corporate characteristics being controlled for. It can be observed that the mean firm size is US 3.33 billion, with a minimum of US 0.015 billion and a maximum of US 50.027 billion. Leverage has the greatest variation, ranging from a minimum of 0.01 and a maximum of 0.91, and the mean leverage is 0.446. There is variation between the maximum and minimum values among most of the companies' leverage because of the impact of examining a wide range of companies of different sizes.

Regarding the standard skewness and kurtosis statistics, the presented data of total assets is not normally distributed with the standard skewness 3.711 and the standard kurtosis 15.277. However, it is observed that the standard skewness and kurtosis statistics of leverage is within the normally distributed range, with 0.147 and - 0.829. The standard skewness and kurtosis for leverage does not exceed the normality range of ±1 (see Mohamad & Sulong, 2010), indicating that the data are normally distributed.

Table 8.13 Descriptive Statistics of Control Variables in the Second Model

Variable	Mean	Std Dev.	Min.	Max.	Skewness	Kurtosis
Leverage	0.446	0.241	0.01	0.91	0.147	-0.829
Total Asset	3.33	0.788	0.015	50.027	3.711	15.277

8.5 Correlation Analysis of the Second Model

This section presents the correlation between the variables of corporate governance mechanisms, firm performance and control variables using the Pearson and Spearman correlation tests. A correlation coefficient analysis is important to avoid multicollinearity between corporate governance mechanisms and the control variables. Both parametric and non-parametric tests are used to examine the required relationships to allow for the non-normality of some of the variables in question. In addition, they permit an examination of the relationship between the dependent and independent variables. The Pearson correlation analysis of the corporate governance mechanisms is presented in Table 8.14. The Pearson correlation analysis of firm performance and corporate governance mechanism variables is shown in Table 8.15, and Table 8.16 shows the correlation analysis of the corporate governance mechanism variables and control variables. Table 8.17 provides the Pearson correlation analysis of firm performance with the control variables. The Spearman correlation analysis of corporate governance mechanism variables, firm performance and control variables is shown in Table 8.18.

8.5.1 Pearson correlation analysis of the corporate governance mechanisms

Table 8.14 shows the results of the correlation analysis of the four variables used for the governance mechanisms. The correlation is positive between some independent variables. According to the correlation analysis, leadership structure is significantly and positively correlated with board composition at $p < 0.05$ (Pearson's correlation coefficient = 0.202), but there is no association with the other two mechanisms—board size and audit committee—at any confidence level. Moreover, there is a significant and positive relationship between board composition and audit committee at $p < 0.10$ (correlation coefficient = 0.137). The correlations between the continuous independent variables are lower than 0.8, which means that there is no serious multicollinearity.

Table 8.14 Pearson Correlation Analysis of the Corporate Governance Mechanism

Variable	Board size	Leadership structure	Board composition	Audit committee
Board size	1			
Leadership structure	0.070	1		
Board composition	0.047	0.202*	1	
Audit committee	0.020	0.111	0.137***	1

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)
*** Correlation is significant at the 0.10 level (2-tailed)

8.5.2 Pearson correlation analysis of firm performance and corporate governance mechanism variables

Table 8.15 shows the Pearson's correlation for firm performance and corporate governance mechanisms. The correlations are significant and positive between the performance measures (ROA, ROE and Tobin's Q) and most of the independent variables. ROA has a positive correlation with most of the independent variables, while ROE has a positive association with leadership structure (Pearson's correlation coefficient = .393), board composition (Pearson's correlation coefficient = 0.346) and audit committee independence (Pearson's correlation coefficient = 0.346), but there is no relationship between ROA and board size.

ROE is found to be significantly correlated with all explanatory variables in the table except board size. ROE has a positive relationship with audit committee independence (Pearson's correlation coefficient = 0.332). In addition, ROE is positively correlated with board composition (Pearson's correlation coefficient = 0.424) and leadership structure (Pearson's correlation coefficient = .326).

Table 8.15 Pearson Correlation Analysis of Firm Performance and Corporate Governance Mechanism Variables

Variable	ROA	ROE	Tobin's Q	Board size	Leadership structure	Board composition	Audit committee
ROA	1						
ROE	0.837**	1					
Tobin's Q	0.029	0.153***	1				
Board size	-0.015	-0.002	-0.149***	1			
Leadership	0.393**	0.326**	-0.007	0.070	1		
Board composition	0.346**	0.424**	0.218**	0.047	0.202*	1	
Audit committee	0.346**	0.332**	0.289**	0.020	0.111	0.137***	1

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)
*** Correlation is significant at the 0.10 level (2-tailed)

Regarding Tobin's Q, Table 8.15 shows that there is a significant correlation between market value (Tobin's Q) and some of the independent variables. Tobin's Q is positively correlated with board composition (Pearson's correlation coefficient = 0.218). Further, the table reveals an association between Tobin's Q and audit committee independence (Pearson's correlation coefficient = 0.289). In contrast, there is no correlation between Tobin's Q and board size and leadership structure at any confidence level.

8.5.3 Pearson correlation analysis of corporate governance mechanism variables and control variables

Table 8.16 explains the results of the correlation analysis of the four independent variables and two control variables. Board size and board composition are significantly and positively correlated with total assets at $p < 0.01$ (Pearson's correlation coefficient = 0.293) and $p < 0.05$ (Pearson's correlation coefficient = 0.159), respectively. However, the correlation analysis reveals no relationship between the two other variables (audit committee independence and leadership structure) and the two control variables among listed companies in the UAE. In addition, board composition has a positive relationship with leverage at $p < 0.01$ (Pearson's correlation coefficient = 0.332). The correlations between the continuous independent variables are low, which means that there is no serious multicollinearity.

Table 8.16 Pearson Correlation Analysis of Corporate Governance Mechanism Variables and Control Variables

Variable	Board size	CEO/ chairman	Board composition	Audit committee	Total assets	Leverage
Board size	1					
CEO/chairman	0.070	1				
Board composition	0.047	0.202*	1			
Audit committee	0.020	0.111	0.137***	1		
Total assets	0.293**	0.018	0.159*	-0.141	1	
Leverage	0.091	0.050	0.332**	0.044	0.549**	1

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)
*** Correlation is significant at the 0.10 level (2-tailed)

8.5.4 Pearson correlation analysis of firm performance with the control variables

Firm size and leverage were used as the control variables in the analysis of the correlation among variables. ROE shows a positive correlation with leverage at $p < 0.01$ (correlation coefficient = 0.269), while Tobin's Q shows a significant negative correlation with total assets at $p < 0.01$ (correlation coefficient = -0.314) and a positive correlation with leverage at the level of $p < 0.10$ (correlation coefficient = 0.138). In addition, there is a correlation between the control variables (firm size and leverage) at $p < 0.01$ (correlation coefficient = 0.549). Table 8.17 shows the results of this correlation.

Table 8.17 Pearson Correlation Analysis of the Firm Performance with the Control Variable

Variable	ROA	ROE	Tobin's Q	Total assets	Leverage
ROA	1				
ROE	0.837**	1			
Tobin's Q	0.029	0.153***	1		
Total assets	-0.093	0.110	-0.314**	1	
Leverage	-0.101	0.269**	0.138***	0.549**	1

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)
*** Correlation is significant at the 0.10 level (2-tailed)

8.5.5 Spearman correlation analysis of the corporate governance mechanism variables, firm performance and control variables

Table 8.18 shows the Spearman's correlation for corporate governance mechanisms, firm performance and control variables in the regression model. This analysis was carried out to observe the negative or positive relationships among all of the variables and to check for multicollinearity. The correlations are significant and positive between some independent variables and firm performance.

Audit committee independence is positively correlated with ROA at $p < 0.01$ (Spearman's correlation coefficient = 0.516). Further, audit committee independence is associated with ROE at $p < 0.01$ (Spearman's correlation coefficient = 0.494). The correlation analysis revealed an association between audit committee independence and market value (Tobin's Q) at $p < 0.01$ (Spearman's correlation coefficient = 0.374). Further, the results show that audit committee independence is negatively correlated with total assets at $p < 0.01$ (Spearman's correlation coefficient = -0.207).

Board composition is significantly correlated with all firm performance measures. Board composition is positively correlated with ROA at $p < 0.01$ (Spearman's correlation coefficient = 0.336), with ROE at $p < 0.01$ (Spearman's correlation coefficient = 0.430) and with market value (Tobin's Q) at $p < 0.01$ (Spearman's correlation coefficient = 0.308). In addition, total assets is correlated with board composition at $p < 0.10$ (Spearman's correlation coefficient = 0.142), and leverage is correlated at $p > 0.01$ with board composition (Spearman's correlation coefficient = 0.302).

Table 8.18 also shows the Spearman's correlation results for board size with firm performance. Board size has no correlation with firm performance measures (ROA, ROE and Tobin's Q) among the listed companies. Board size has a positive relationship with total assets at $p < 0.01$ (Spearman's correlation coefficient = 0.308).

As shown in Table 8.18, the leadership structure variable has a correlation with ROA and ROE at $p < 0.01$ (Spearman's correlation coefficient = 0.345 and Spearman's correlation coefficient = 0.244, respectively). However, the leadership variable does not have any significant correlation with Tobin's Q. Further, there are no correlations between all control variables and leadership variables. Finally, the correlations between all independent variables are low. There is no serious multicollinearity, as shown in Spearman's correlation in Table 7.18 (see also Table 7.20, which presents the VIF result of the second model).

Table 8.18 Spearman Correlation Analysis of Corporate Governance Mechanism Variables, Firm Performance and Control Variables

Variable	Board size	Leadership	Board composition	Audit committee	ROA	ROE	Tobin's Q	Total assets	Leverage
Board size	1								
Leadership structure	0.065	1							
Board composition	0.079	0.145***	1						
Audit committee	0.018	0.149***	0.203*	1					
ROA	0.022	0.345**	0.336**	0.516**	1				
ROE	0.031	0.244**	0.430**	0.494**	0.768**	1			
Tobin's Q	-0.109	-0.052	0.308**	0.374**	0.257**	0.373**	1		
Total assets	0.308**	0.025	0.142***	-0.207**	-0.221**	0.037	-0.266**	1	
Leverage	0.090	0.059	0.302**	0.039	-0.153	0.332**	0.229**	0.491**	1

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)
*** Correlation is significant at the 0.10 level (2-tailed)

8.6 Multicollinearity

Multicollinearity implies the existence of a linear relationship between two or more explanatory variables. The correlation in this research illustrates that the correlations between the explanatory variables are lower than 0.08 in the first model (CGI) and the second model (corporate governance mechanisms), which means that there is no serious multicollinearity. Gujarati (2003) reports that serious collinearity is indicated only if the coefficients of correlation between continuous independent variables exceed 0.800.

Field (2009) indicates that there is no multicollinearity if independent variables meet the following criteria: correlations of less than 0.9, tolerance statistic above 0.2 and a VIF below 10. Kennedy (1992) indicates that, based on the VIF, multicollinearity is a serious problem if the VIF of continuous independent variables exceeds 10. Further, if there is a perfect linear relationship among the explanatory variables, the estimates for a regression model cannot be uniquely computed. The possible existence of multicollinearity is tested based on the correlations, including all of the independent and control variables.

Therefore, variance inflation and tolerance factors for the independent variables of the first and second models were calculated to detect multicollinearity in the two models. The largest VIF in the first model was obtained for total assets (1.59), and the smallest VIF was for the CGI (1.04). Similarly, the tolerance factor varied from a low of 0.628 for total assets to a high of 0.958 for the CGI. The finding of this analysis explains that there is no multicollinearity in the first model, as the highest value of the VIF is less than 2 and the tolerance factor is above 0.2. Table 8.19 shows the results of the VIF and the tolerance factors of the independent variables and the control variable of the first model.

Table 8.19 Values for Variance Inflation and Tolerance Factors of CGI and Corporate Characteristics in the First Model

Variable	**Collinearity statistics**	
(Constant)	**Tolerance**	**VIF**
CGI	0.958	1.04
Total assets	0.628	1.59
Leverage	0.649	1.54

Table 8.20 presents the VIF and tolerance coefficients of each explanatory variable for the second model. Table 8.20 shows that the highest VIF is 1.64 and the lowest is 1.05. Moreover, the lowest tolerance coefficient is 0.610. Therefore, the results of the VIF and tolerance coefficients indicate that there is no multicollinearity problem among the current study's variables, confirming that there is no need to be concerned about the correlation between the explanatory variables. Gujarati (2003) and Shan and McIver (2011) confirm that there is no concern with a VIF of less than 10. Therefore, multicollinearity does not constitute an issue in either of the two models.

Table 8.20 Values for Variance Inflation and Tolerance Factors of Corporate Governance Mechanisms and Corporate Characteristics in the Second Model

Variable	**Collinearity statistics**	
(Constant)	**Tolerance**	**VIF**
Board size	0.898	1.14
Leadership	0.948	1.05
Board composition	0.845	1.18
Audit committee independence	0.932	1.07
Total assets	0.624	1.60
Leverage	0.610	1.64

8.7 Regression Analysis

The previous section presented the results highlighting the descriptive statistics and univariate analysis. This section uses a multiple regression analysis and employs OLS regression with a robust standard error to test the developed research hypotheses. This multivariate analysis was undertaken to examine the relationship between the CGI and firm performance. The first model was tested, in which the independent variables were corporate governance principles and firm performance, after controlling for corporate characteristics (total assets and leverage).

In addition, a GLS regression was performed to test the hypotheses in the second model. GLS takes into consideration that the variances of the observations might be unequal and/or that there might be a degree of correlation between the observations.

The results of the Hausman test (1978) determined that a random-effect GLS regression model was appropriate to test the panel data. The second model investigated the relationship between different corporate governance mechanisms and firm performance with total assets and leverage as control variables in the second model. Finally, a sensitivity analysis using a pooled cross-sectional OLS regression with a robust standard error was carried out to check the sensitivity and attest to the reliability of the GLS regression results and hence the robustness of the main regression analysis.

8.7.1 OLS regression analysis of the first model

An OLS regression with a robust standard error was employed to test the developed hypotheses. As shown by the descriptive statistics, the study's data were not normally distributed; therefore, the robust standard error was used to adjust the OLS parametric test to fit with non-parametric data. The regression analysis attempted to examine the relationship between the CGI and the companies' performance based on ROA, ROE and Tobin's Q. The results of the OLS regression in the first model for CGI on firm performance are shown in Table 8.21.

Table 8.21 OLS Regression with Robust Standard Error of Corporate Governance Index on Firm Performance

Variables	ROA		ROE		Tobin's Q	
	Coeff.	P-value	Coeff.	P-value	Coeff.	P-value
Constant	-12.34	0.202	-34.19*	0.031	-2.168*	0.023
CGI	0.163*	0.012	0.313**	0.004	0.0230**	0.000
Total assets	-1.688***	0.085	-1.863	0.182	-0.101	0.267
Leverage	-3.433	0.291	8.616*	0.027	0.288	0.246
R-squared (%)	40.33		36.02		39.19	
F-statistic	(6.89)**		(5.38)**		(6.93)**	

* Indicative variables are at the 0.05 significant level
** Indicative variables are at the 0.01 significant level
*** Indicative variables are at the 0.10 significant level

The results show that the CGI is positively significantly correlated with different firm performance measures. The CGI has a relationship with ROA at $p < 0.05$ and with ROE and Tobin's Q at $p < 0.01$. In contrast, total assets has a significant and negative association with ROA at $p < 0.10$, but an insignificant association with ROE and Tobin's Q. Leverage has a positive relationship only with ROE at $p < 0.05$. The R-squared of the models explains how much of the change in the dependent variables is explained by changes in the independent variables. The first R-squared of the ROA model is 0.40, indicating that 40% of the change in ROA is explained by a change in the CGI. In the ROE model, the R-squared is 0.36, which indicates that a change of one unit in the CGI increases ROE by 36%, while the R-squared for Tobin's Q is 39.19%, indicating that 39.19% of the change in Tobin's Q is explained by changes in the CGI. The R-squared values range from 0.36 to 0.40, indicating that the models are capable of explaining variability ranging from 36% to 40% in the performance of the listed companies.

The F-statistics of the regression models are statistically significant at less than the 1% level, implying the goodness of fit of the regression. The F-statistic or the model fit for ROA is significant at $p < 0.01$, and this model explains that company ROA has a positive and significant relationship with the CGI and a negative relationship with the control variable of firm size. The F-statistic of the model is significant at $p < 0.01$. The F-statistic for ROE is significant at $p < 0.01$, which means that ROE has a significant association with the CGI and the control variable of company leverage. In addition, Tobin's Q is significantly linked with the CGI at $p < 0.01$, but no relationship is found with the two control variables in the F-statistics model. The results of the regression analysis agree with the implementation of the corporate governance research hypothesis concerning the existence of a significant relationship between the implementation of corporate governance principles and firm performance.

8.7.2 GLS regression analysis of the second model

A GLS regression with a robust standard error was carried out to test the research hypotheses for the second model. GLS is a technique for estimating the unknown parameters in a linear regression model. GLS is applied when the variances of the observations are unequal or when there is a certain degree of correlation between the observations. Unequal variances may exist due to the presence of outliers and skewness, so it is desirable that a population with smaller variability is given more weight than observations of populations with greater variability.

While the OLS method does not make use of information relating to the unequal variability of the dependent variable, as it assigns equal weight or importance to each observation, GLS can produce more accurate estimators because it clearly takes such information into account (see Gujarati, 2003). The second model—the relationship between corporate governance mechanisms and firm performance—is presented in Table 8.22.

Table 8.22 presents the results of a GLS regression with a robust standard error of corporate governance mechanisms on firm performance. The results show a significant positive association between ROE and leadership structure ($p < 0.01$), board composition (p < 0.01) and audit committee (p < 0.01). However, no significant association is found between ROA and board size. The results also indicate a strong significant and negative association of ROA with leverage (p < 0.01). The R-squared of the model is 35.40%, indicating that 35.40% of the changes in ROA are explained by changes in corporate governance mechanisms.

Table 8.22 GLS Regression with Robust Standard Error of Corporate Governance Mechanisms on Firm Performance

Variables	ROA		ROE		Tobin's Q	
	Coeff.	P-value	Coeff.	P-value	Coeff.	P-value
Constant	-9.41	0.004	-15.70	0.004	1.12	0.009
Board size	-0.19	0.304	-0.19	0.317	-0.01	0.427
Leadership	4.14*	0.002	5.05*	0.012	-0.07	0.475
Board composition	8.38**	0.000	12.15**	0.000	0.42***	0.080
Audit committee	9.09**	0.001	13.36**	0.003	0.51*	0.030
Total assets	0.30	0.605	0.36	0.695	-0.33**	0.000
Leverage	-5.14**	0.003	5.10*	0.048	0.79**	0.000
R-squared (%)	35.40		32.77		30.04	
F-statistic	49.84**		88.55**		37.45**	

* Indicative variables are at the 0.05 significant level
** Indicative variables are at the 0.01 significant level
*** Indicative variables are at the 0.10 significant level

There is a significant relationship between leadership structure and ROE (p < 0.05). Similarly, there is a strong significant and positive relationship between ROE and board composition (p < 0.01) and audit committee independence (p < 0.01). There is also a significant and positive relationship between leverage and ROE (p < 0.05). However, board size is insignificant, indicating that there is no association between ROE and board size. The results also reveal no significant positive relationship between total assets and ROE. This model further confirms that one unit of change in corporate governance mechanisms influences ROE to increase by 32.77%.

It can be observed that board composition is significantly and positively associated with Tobin's Q (p < 0.10). The results also reveal a significant and positive relationship between audit committee independence and Tobin's Q (p < 0.05). However, no significant association is detected between board size and leadership structure with Tobin's Q. Concerning the control variables, a significant and negative relationship is found between total assets and Tobin's Q (p < 0.01), and a positive relationship is detected between Tobin's Q and leverage (p < 0.01). In this model, the R-squared of the model is 30.04%, indicating that 30.04% of the change in Tobin's Q is explained by changes in corporate governance mechanisms (board composition and audit committee independence).

The F-statistic of the regression models in Table 8.22, measuring the explanatory power of the second model and its statistical significance in testing, is statistically significant at $p < 0.01$, which indicates goodness of fit in the regression for ROA, ROE and Tobin's Q. These results show that the model has reasonable explanatory power regarding the relationship between the dependent and independent variables and adequately describes the data. This is confirmed by the results of the R-squared and F-statistic, which indicate that the models implemented in this research are well fitted in showing that corporate governance mechanisms have a significant effect on firm performance in listed companies in the UAE.

8.7.3 Sensitivity analysis

The main objective of the sensitivity analysis is to examine the sensitivity of the results and findings towards a change in the statistical test. The current study uses a pooled OLS regression, which assumes that all observations take place at the same time, to check the sensitivity of the findings. This research uses OLS with a robust standard error, as the examined data were not normally distributed, as stated earlier regarding the descriptive statistics. The pooled regression analysis deals with all observations as one unit without differentiating between the different groups of data as do the panel data. Table 7.23 presents the findings of the pooled test. The findings are considerably similar to the GLS regression.

Table 8.23 displays the results of the pooled cross-sectional OLS regression with a robust standard error for corporate governance mechanisms that affect firm performance. The results of the pooled regression show approximately the same R-squared as the panel data regression analysis, indicating that the pooled regression has the same strength as the main panel regression. Results similar to those of the panel data regression analysis are found, as shown in Table 8.22.

Table 8.23 presents the results of the pooled cross-sectional OLS regression with a robust standard error for corporate governance mechanisms that affect firm performance. The results show no significant association between ROA and board size in this model. However, ROE is found to be significantly and positively associated with leadership structure ($p < 0.01$), board composition ($p < 0.01$) and audit committee independence ($p < 0.01$). In addition, ROA shows a statistically significant negative relationship with leverage at the level of $p < 0.10$. The R-squared of the model is 35.60%, indicating that 35.60% of the change in ROA is explained by changes in corporate governance mechanisms.

Table 8.23 OLS Regression with Robust Standard Error of Corporate Governance Mechanisms on Firm Performance

Variables	ROA		ROE		Tobin's Q	
	Coeff.	P-value	Coeff.	P-value	Coeff.	P-value
Constant	-11.17	0.000	-17.53	0.000	0.95	0.007
Board size	-0.12	0.417	-2.67	0.319	-0.12	0.491
Leadership	4.02**	0.001	4.70**	0.009	-0.87	0.389
Board composition	9.67**	0.000	13.58**	0.000	0.50*	0.016
Audit committee	9.92**	0.000	14.48**	0.000	0.65**	0.003
Total assets	0.28	0.573	0.44	0.611	-0.32**	0.000
Leverage	-5.51**	0.000	4.38*	0.070	0.75**	0.000
R-squared (%)	35.60		32.91		30.26	
F-statistic	10.62**		13.23**		9.31**	

* Indicative variables are at the 0.05 significant level
** Indicative variables are at the 0.01 significant level
*** Indicative variables are at the 0.10 significant level

Regarding the ROE, there is a significant relationship to the separation of the roles of the CEO and the chairman of the board of directors at $p < 0.01$. The results also show that the ROE is positively correlated ($p < 0.01$) with board composition and audit committee independence, but is not significantly associated with board size. For the rest of the relationships between the ROE and the control variables, ROE is a significant negative with leverage at $p < 0.01$ and insignificant in relation to firm size. The R-squared of the model is 32.91%, indicating that 32.91% of the change in ROE is explained by changes in the corporate governance mechanisms of leadership structure, board composition and audit committee independence.

The results also reveal a significant and positive relationship between Tobin's Q and board composition and audit committee independence ($p < 0.01$ and 0.05, respectively). No significant relationship is detected between market value (Tobin's Q) and leadership structure and board size. Concerning company characteristics, the results confirm the significant and positive association of Tobin's Q with firm leverage ($p < 0.01$) and a negative correlation with total assets ($p < 0.01$). The R-squared of the model is 30.26%, indicating that increasing one unit of corporate governance mechanisms (board composition and audit committee independence) raises 30.26% of the change in the market value of a firm.

From the above findings, the pooled regression model shows the same R-squared as the panel data regression analysis, indicating that the pooled regression has the same strength as the main panel regression and the F-statistic of the regression models, as shown in Table 8.22. In addition, the pooled regression reveals the same significant and insignificant relationships between corporate governance mechanisms and firm performance with firm characteristics. Therefore, the pooled regression confirms that the results of the panel data analysis are not sensitive to a change in the type of statistical test employed. Moreover, the selected panel data analysis is well fitted with the examined data. That is, there is no variation in the results between the primary analysis adopting the GLS regression, the non-parametric test and the findings of the pooled OLS regression, the parametric test, for the second model.

This sensitivity analysis shows general consistency with the overall findings. The results of using alternative model specifications and changing the statistical tests in assessing the effect of corporate governance mechanisms on firm performance do not alter the main inferences drawn from the reported results of the main model and the major statistical analysis. In this regard, the sensitivity analysis confirms the reliability of the results and findings.

8.8 Conclusion

This chapter presents the results of the analyses of the sample selected from listed companies in the UAE. Descriptive statistics of the independent variables of the study and the corporate governance principles and mechanisms are presented. Further, the descriptive statistics of the dependant variables of the study (ROE, ROA and market value, and Tobin's Q and control variables), firm size and leverage are also presented. The main objective of this chapter is to determine the relationship between firm performance and corporate governance practice, mainly corporate governance principles and corporate governance mechanisms. The correlation test was used to analyse the association among variables. Correlation analysis was used to test the reliability of the CGI and to obtain the correlation between the independent and dependent variables in the research. In addition, tests for data normality, heteroscedasticity and multicollinearity of the econometric model were performed to analyse the reliability of the model. Two econometric models were constructed to confirm the relationship among variables and to test the hypotheses used in the study. Measures of firm performance, ROE, ROA and Tobin's Q, were significantly related to corporate governance principles and most mechanisms.

Therefore, this chapter analysed the corporate governance mechanisms of the listed companies and their extent of compliance with the corporate governance code among listed companies in the UAE and determined the relationships between corporate governance practices and firm performance in listed companies in the UAE. The explanation of the meaning of the statistical results, and the insights into and analysis of these data and the implications of the results on corporate governance and firm performance are discussed in the next chapter.

Chapter 9: Discussion and Implication of the Results

9.1 Introduction

The previous chapter reported the results of the analyses of the relationship between the corporate governance and firm performance of listed companies in the UAE. This chapter will discuss the results of the survey and the secondary data analysis in accordance with the research objectives. In addition, this chapter discusses the hypotheses presented in the conceptual framework using the statistical techniques described in Chapter 8. The statistical techniques analyse the corporate governance principles index, the corporate governance mechanisms and examine the relationship between firm performance and corporate governance principles and mechanisms. To test the relationships between corporate governance practice and firm performance, the following hypotheses have been developed:

- H1: The implementation of corporate governance principles has a positive association with the firm performance of listed companies in the UAE.
- H2: Board size has a significant relationship with the firm performance of listed companies in the UAE.
- H3: Separate leadership has a positive significant relationship with the performance of listed companies in the UAE.
- H4: Board composition has a positive relationship with the firm performance of listed companies in the UAE.
- H5: Audit committee independence has a positive relationship with the firm performance of listed companies in the UAE.

This chapter presents the implications of the results in the following sections. Section 9.2 presents the concept of corporate governance, while Section 9.3 presents the current implementation of corporate governance principles. Sections 9.4 and 9.5 explain the possible barriers to, and possible enablers of, the implementation of good corporate governance. Section 9.6 discusses the state of corporate governance mechanisms. Section 9.7 discusses the relationship between corporate governance principles and firm performance. Section 9.8 explains the relationship between board size and firm performance, and Section 9.9 discusses the relationship between leadership structure and firm performance. Section 9.10 examines the relationship between board composition and firm performance, while Section 9.11 presents the relationship between audit committee independence and firm performance. Section 9.12 presents a summary of the results and implications of corporate governance and firm performance in the UAE, and Section 9.13 presents the conclusions of the chapter.

9.2 Concept of Corporate Governance

Chapter 7 investigated the perception of stakeholders concerning the concept of corporate governance in the UAE in two parts. The first part identified which definition of corporate governance was suitable for the UAE context, and the second part discussed the significance of the implementation of good corporate governance practice in listed companies to stakeholders. The descriptive results implied that the stakeholders believe that the stakeholder model is appropriate for the UAE and that the implementation of corporate governance is important to all stakeholders.

Analysis and implication

The findings show that most respondents agreed with the definition of corporate governance that identified the concept in terms of an organisation’s relationship with all stakeholders who affect or are affected by the company’s operations and decisions. In addition, the descriptive results reveal that the majority of participants believe that the implementation of good corporate governance practice in UAE listed companies is significant to all stakeholders, including shareholders, investors, managers/CEOs, employees, creditors (e.g., banks, suppliers), customers, auditors, the government and the local community. This result is consistent with the perception of stakeholders regarding the definition of the stakeholder model. Therefore, the stakeholder model is the most appropriate model of corporate governance in the UAE context from the stakeholders’ perspective. This implies that the implementation of governance principles in the UAE context confirms the stakeholder theory view.

These findings are in line with the principles of the OECD (2004), which hold that corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set and the means of attaining the objectives and monitoring performance are determined (OECD, 2004). The results of this study support those of Al-Tamimi and Charif (2012), who find that the board of directors considers the importance of the relationship with the shareholders and develops a good relationship with the stakeholders. In addition, Wanyama, Burton and Helliar (2013) present evidence that stakeholders take a broad view of the corporate governance concept, with recognition of a wide range of stakeholders in developing countries.

In the stakeholder model, the main aim of corporate governance is to promote long-term investment and obligation towards the various stakeholders (Maher & Andersson, 2000). Clearly, corporate governance refers to mechanisms that are used to organise and ensure that any actions taken are in line with the interests of key stakeholder groups. Corporate governance also supports fairness, transparency and accountability, and it consists of the relationship of a company with its stakeholders and society (Ayandele & Emmanuel, 2013). This is due to the fact that pursuing stakeholders' interests might help overcome the market failure in developing countries; thus, the stakeholder model of corporate governance is more useful to these countries (Allen, 2005). Given this, from the stakeholder perspective, companies should be accountable not only to shareholders, but also to investors, employees, customers, suppliers, the government, regulatory authorities and others who affect or who are affected by the activities and decisions of firms.

The current findings also corroborate with Hasan (2009), who finds that the previous literature view that the interest of all stakeholders and their right to participate in corporate decisions should be acknowledged, as the stakeholder theory of corporate governance is strongly recognised in Islam. Iqbal and Mirakhor (2004) emphasise that the corporate governance style and process at the system and firm levels protect the rights of stakeholders who face any risks; consequently, a firm's activities incline towards the stakeholder-oriented model in the Islamic economic system. Consequently, the results of the present study show that the stakeholder model is considered the appropriate concept of corporate governance in the UAE context. This is consistent with the Islamic view that the role of companies and individuals is to act in a manner that improves the well-being of society. The implication of these findings is that companies should consider the interests of stakeholders, maintain a good relationship with them and focus more on the community in their decisions and operations.

9.3 Current Implementation of Corporate Governance

This section will discuss the current state of the implementation of five corporate governance principles by listed companies in the UAE based on stakeholders' perceptions. These principles include: rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and responsibility of board directors. Descriptive results show an improvement in the implementation of the five principles of corporate governance consistent with the stakeholder theory perspective, the relationship between the implementation of good corporate governance and firm performance. These findings show that the implementation of good corporate governance principles in the listed companies was enhanced based on the OECD Principles (2004) and considered the interests of all stakeholders.

Analysis and implication

Rights of shareholders

The assessment of the quality of shareholders' rights and the extent to which shareholders' rights were being protected were based on the principle of the rights of shareholders, which emphasises that the corporate governance framework should protect and facilitate shareholders' rights (OECD, 2004). The study findings show that the respondents' level of agreement with the principle 'shareholders have the right to participate in company profits' had the highest mean score at 4.12, followed by the statement 'shareholders have the right to obtain information related to the company regularly' at 4.05. In contrast, 'ownership transfer among shareholders is facilitated' had the lowest level of agreement, with a mean score of 3.69, indicating less support from respondents. The findings highlight that participants agreed that the UAE listed companies implement the principle of the rights of shareholders, with an overall mean score of 3.96.

Equitable treatment of shareholders

The second OECD Principle concerns the equitable treatment of all shareholders, including dominant, minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for any violation of their rights (OECD, 2004). Respondents registered the highest level of agreement with the statement ‘shareholders have the right to obtain information about voting rights before they purchase shares’. ‘All shareholders who are from the same class are treated equally’ was ranked second, with a mean score of 3.75, followed by the statement ‘processes and procedures for general shareholder meetings allow for equitable treatment of all shareholders’, with a mean score of 3.73. The statement ‘minority shareholders are protected from insider trading’ was ranked fourth, with a mean score 3.63. The last-ranked statements were ‘members and key executives disclose material interests in any transaction or matter directly affecting the company’, with a mean score of 3.39, and ‘there are means to remove the obstacles of cross-border voting’, with a mean score of 3.14. Overall, most of the items recorded mean scores between 3.14 and 3.80. This implies that the majority of participants agreed, to varying degrees, that UAE listed companies implement the principle of the equitable treatment of shareholders (overall mean = 3.57).

Role of stakeholders in corporate governance

The third principle of the OECD covers the role of stakeholders in corporate governance. The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active cooperation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises (OECD, 2004). The majority of participants agreed with the statement ‘stakeholder rights that are established by law are respected by the company’, with a mean score of 3.84. ‘Stakeholders have the right to obtain sufficient and reliable information on a timely basis’ ranked second, with a mean score of 3.69. The last-ranked statement was ‘an effective corporate governance framework enforces creditor rights’. All items recorded mean scores between 3.47 and 3.84. This means that the majority of participants agreed that UAE listed companies implement the principle of the role of stakeholders in corporate governance, with an overall mean score of 3.64.

Disclosure and transparency

The fourth principle is that corporate governance should ensure that the disclosure and transparency of all issues regarding the corporation are properly established. The corporate governance framework should ensure the timely and accurate disclosure of all material matters regarding the corporation, including its financial situation, performance, ownership and governance (OECD, 2004). The findings show that the statement ‘an annual audit of the company is conducted by an independent auditor’ registered the highest level of agreement, with a mean score of 4.21, followed by ‘information is prepared and disclosed in accordance with International Accounting Standards’, with a mean score of 4.16. The majority of participants also agreed with the statement ‘financial and operating results of the company are disclosed during the fiscal year’, with a mean score of 4.02, ranking it third out of nine items. The lowest support for the statements in this principle was for ‘foreseeable risk factors are disclosed’, which had a mean score of 3.63. These results show that the majority of participants agreed that the UAE listed companies implement the principle of disclosure and transparency, with an overall mean score of 3.92. All items recorded mean scores between 3.63 and 4.21.

Responsibility of board directors

The fifth principle outlines the responsibilities of the board of directors. The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board and the board’s accountability to the company and its shareholders (OECD, 2004). Most respondents agreed with the statement ‘board members act in the best interests of the company and the shareholders’, which ranked first with a mean score of 4.04. The majority of participants also agreed that ‘board members are provided with accurate, relevant information about the company’, with a mean of 4.03. The statement ‘the board supervises the process of disclosure and communication’ registered the lowest level of agreement (3.63). All statements had mean scores between 3.63 and 4.04. The majority of participants agreed, to varying degrees, that UAE listed companies implement the principle of board directors’ responsibility, with an overall mean of 3.57.

Implication of implementation of corporate governance principles

The foregoing findings of the five Principles of Corporate Governance show that the corporate governance principles in listed companies in the UAE have been implemented. The reasons for the present results may be the corporate governance reforms and new regulations that have taken place in the UAE in the past decade. In addition, this means that most listed companies pay more attention to improving the implementation of corporate governance principles. As discussed in Chapter 3, the implementation of the Principles of Corporate Governance is important for good corporate governance. Therefore, enhancing good corporate governance practice could provide investor protection, reduce risk investment and manage good relationships between the firm and its stakeholders, which can lead to firm performance.

The results of the current study are consistent with those of Hussain and Mallin (2002), who find that Bahraini companies implement some aspects of corporate governance best practices and key corporate governance structural aspects. Meanwhile, Bremer and Elias (2007) state that although the challenges to developing corporate governance in Egypt appear daunting, recent developments indicate that the Egyptian Institute of Directors has organised conferences and training programs. The IFC conducted the corporate governance survey in the MENA countries in 2006 and 2007, finding an enhanced understanding of the importance of corporate governance in these countries (IFC & Hawkamah, 2008). However, more effort and commitment is needed to enhance the corporate governance environment in the MENA region. Al-Shammari and Al-Sultan (2010) show that focusing on corporate governance characteristics leads to enhancing the transparency needs of the Kuwaiti market. In addition, Kuwaiti regulators were attempting to improve transparency and efficiency in fast-growing capital markets, and companies might call for establishing audit committees to protect investors and retain confidence in the economy.

According to Harabi (2007), all stakeholders, such as capital markets, banks, the public and private sectors, and other civil society groups, focus on corporate governance in public debates in the MENA countries. The stakeholders identify corporate governance reforms as one of the important topics affecting the economic growth and development of firms, industries and whole economies in their region. Recommendations concerning corporate governance development had been approved in some meetings and conferences at both the national and regional levels in the MENA region. In addition, the Jordanian study by Shanikat and Abbadi (2011) finds that basic shareholder rights were respected in decision-making; shareholders were treated equitably in practices such as prohibited insider trading; companies respected the role and rights of stakeholders in corporate governance; disclosure and transparency were extended; boards largely fulfilled their responsibilities; and stakeholders had a number of legal protections, which were mainly consistent with Jordan’s company law.

The present findings support previous research about corporate governance in the UAE. The 2007 IMF report recommended implementing the Code of Corporate Governance and adopting the proposed Companies and Commercial Activities Law. Hussainey and Aljifri (2012) report that improving efficiency, effectiveness and governance in the UAE stock market could bring about the effective implementation of the Codes of Corporate Governance. Al-Tamimi and Charif (2012) state that the boards of directors consider the importance of the relationship with the shareholders and understand and develop a good relationship with stakeholders. The boards of directors are aware of the requirements of corporate governance practices.

Mubarak (2012) finds that all UAE companies in her study provide an account of their corporate governance in a separate report. She states that the UAE code is based on the following OECD principles: ensuring the basis for an effective corporate governance framework, the rights of shareholders and key ownership function, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board. Hassan (2012) examines the level of corporate governance reporting in UAE-listed corporations and finds that the highest disclosures are related to management structure and transparency, while the lowest disclosures are associated with information about external auditing and non-audit services. Al-Malkawi, Pillai and Bhatti (2014) found that the firms listed in the UAE stock markets ranked first, with adoption of 85% of corporate governance practices. Among the Gulf countries that have adopted good corporate governance: disclosure, board effectiveness and composition and shareholders rights, were followed by Oman, Saudi Arabia, Qatar and Kuwait, respectively. The authors suggested that properly governed companies added to the stability and prosperity of the country.

Clearly, the results of this research, which showed the improved implementation of corporate governance, are the result of the UAE government’s significant efforts to improve corporate governance practice in listed companies. For instance, the ES&CA decision No. 3 (2000) requires the Authority to ensure that disclosure and transparency is regulated in accordance with the law, regulations and resolutions in the UAE. In addition, the DIFC created the Hawkamah Institute for Corporate Governance in 2006, which is active in promoting corporate governance codes and guidelines in MENA, particularly in the UAE. In 2007, The ES&CA introduced the UAE Code of Corporate Governance (ES&CA decision R/ 32 of 2007 amended by MR No. 518 of 2009). The

Code of Corporate Governance in the UAE was established based on the OECD Principles of Corporate Governance, which require good corporate governance practice. The UAE government efforts are consistent with Okike (2007), who argues that the government plays a vital role in improving corporate governance practice by ensuring companies operate in the best interest of the various stakeholders.

The OECD Principles have been successfully implemented and are considered a very effective tool of corporate governance compared to the Islamic principles of corporate governance. This is because the OECD Principles of Corporate Governance existed since the early stages of Islamic culture, but the globalisation tendency and cultural, religious, social, business and political factors have led to the loss of the true culture of Islamic civilisation (Abu-Tapanjeh, 2009). The findings of the present study support the stakeholder theory perspective in the MENA region, especially the UAE. This implies that the implementation of good corporate governance principles helps to manage the relationship between stakeholders and the company, and it considers the interests of all stakeholders.

9.4 Possible Barriers to the Implementation of Corporate Governance

This section presents the perception of stakeholders concerning possible barriers to the implementation of corporate governance. These barriers are as follows: weak legal controls and law enforcement, the culture of the UAE community, a weak accounting and auditing profession, poor-quality accounting and finance education, weak infrastructures of financial institutions, lack of legal and regulatory systems that govern companies' activities, government interference in business activities, the state of the UAE economy, the costs of practising good corporate governance outweigh the benefits, poor financial and non-financial disclosure, and good relationship between the company and external auditors. Descriptive results reveal that most participants agreed that this list of possible barriers might affect the enhancement of corporate governance in the UAE.

Analysis and implication

The study results show that participants ranked 'the culture of the UAE community' as the largest possible obstacle to the implementation of corporate governance in listed companies in the UAE, followed by 'weak accounting and auditing profession'. 'Weak legal controls and law enforcement' was ranked as the third-largest possible barrier, while 'lack of legal and regulatory systems that govern companies' activities' was ranked as the fourth-largest obstacle. Respondents ranked 'poor-quality accounting and finance education' as the fifth barrier. Other obstacles were given less importance, such as 'good relationship between the company and the external auditors', 'government interference in business activities' and 'the state of the UAE economy'. The least important possible barrier was 'the costs of practising good corporate governance outweigh the benefits'. The results show that 40%–68% of the respondents agreed that the list of possible barriers might affect the implementation of corporate governance in the UAE, as described in Chapter 7.

The present study has identified the possible barriers to the implementation of good corporate governance in the MENA region by examining the perceptions of various stakeholders of listed companies in the UAE regarding these corporate governance barriers. The perceptions of the stakeholders are in agreement with previous research, which shows that these obstacles could negatively affect corporate governance practices (Dahawy, 2007; Wanyama Burton & Helliar, 2009; Kaur & Mishra, 2010; Ali, Qader Vazifeh & Moosa Zamanzadeh, 2011; Okpara, 2011; Adekoya, 2011; Rafiee & Sarabdeen, 2012; Baydoun et al., 2013). The current findings suggest that policymakers and regulators should focus more on dealing with the barriers that could affect the implementation of corporate governance in listed companies in the UAE. This can have a positive effect because the listed companies will ensure compliance with the UAE Code of Corporate Governance.

9.5 Possible Enablers of the Implementation of Corporate Governance

This section presents the main findings on the possible enablers of the implementation of corporate governance in the UAE. These enablers, which were examined in Chapter 6, include: ensuring wide adoption of international accounting and auditing standards; using training and other means of support; developing incentive programs for compliance with principles of corporate governance; establishing corporate governance education programs at universities; establishing an institute of directors for training, education and raising awareness of CEOs, directors and board members; enhancing professional accounting and auditing bodies; participating in international events, conferences, meetings and committees dealing with corporate governance; encouraging research into corporate governance in the UAE; learning from the experiences of other countries concerning corporate governance practice; and initiating regional corporate governance partnership programs with international organisations such as the OECD.

Analysis and implication

The descriptive results in Chapter 6 show that the participants generally agreed that this list of possible enablers might affect the enhancement of corporate governance in the UAE. 'Ensuring wide adoption of international accounting standards' was ranked as the first enabler, with a mean score of 4.25 based on the stakeholders' perspectives. The second-ranked enabler was 'learning from the experiences of other countries concerning corporate governance practice', with a mean score of 4.24. However, 'establishing corporate governance education programs at universities' and 'establishing an institute of directors for training, education and raising awareness of CEOs, directors and board members' were given less importance, with mean scores below 4.00. In summary, these enablers are important in improving the implementation of corporate governance in the UAE.

The present study has investigated the perceptions of various stakeholder groups in listed companies in the UAE with respect to corporate governance enablers. The study results provide useful insights into the possible enablers of the implementation of good corporate governance in an emerging economy such as the UAE. The participants' perspectives are consistent with previous research, which finds that these enablers could be effective in improving corporate governance practices (Saidi, 2004; Aljifria & Khasharmeh, 2006; Okike, 2007; Harabi, 2007; Ayandele & Emmanuel, 2013). The results suggest that these enablers should be considered crucial to the development of corporate governance practice in listed companies in the UAE because they could lead to enhancing good corporate governance practice, which is expected for the political, economic, social and cultural development of a country.

9.6 State of Corporate Governance Mechanisms

This section discusses the state of corporate governance mechanisms based on the secondary data on listed companies in the UAE. These mechanisms include: board size, leadership structure, board composition and audit committee independence. The descriptive results show an improvement in the implementation of these four mechanisms of corporate governance. This is consistent with the agency theory perspective, which suggests that effective corporate governance mechanisms reduce the agency problem between management and shareholders, thus improving firm performance. These results show that most listed companies comply with the code of corporate governance in the country.

Analysis and implication

Board size

Board size was measured using the number of board directors in listed companies, as described in Chapter 7. The minimum board size in the listed companies was five, and the maximum was 15. The mean size of the board of directors was 7.6. The results of this study are consistent with those of Brown and Caylor (2004), who suggest that the ideal board size for enhancing firm performance is between six and 15. Conversely, Jensen (1993) argues for 7–8 members, while Lipton and Lorsch (1992) recommend a board size of 8–9. Jensen and Ruback (1983) claim that a board size of 7–8 members is reasonable to guarantee effectiveness. Several considerations should be made before appointing directors, as companies have different sizes, needs, operations, skills requirements, shareholding structures and regulatory requirements. It would be ideal to have a board size of 7–9 to ensure efficient operations and improved performance (Tornyeva & Wereko, 2012). In the UAE, the commercial law suggests that the board of directors in listed companies should consist of 3–12 members.

Leadership structure

The practice of separating leadership roles is growing more common and more important in listed companies in the UAE. This is evident in the descriptive results in Chapter 7. The leadership structure was measured according to whether the roles of the chairman and the CEO were separated in the listed companies. The minimum number for a leadership structure in the listed companies was 0, which means no separation of leadership, while the maximum was 1 for the separation of the chairman and CEO roles. The results imply that most companies have complied with the Code of Corporate Governance in the UAE. At least 80% of the listed companies separate the responsibilities of the chairman and the CEO. The CEO is responsible for overseeing the company’s operations, providing leadership, communicating to the shareholders, and preparing strategies, plans and objectives. In contrast, the chairman reviews the board, scrutinises activities and encourages and supports them. The results of the present study are similar to those of Suryanarayana (2005), who finds that over 80% of the listed companies in India had corporate governance mechanisms with separate leadership. Heenetigala and Armstrong (2011) report that 81% and 84% of the listed firms separated the leadership roles in the listed companies of Sri Lanka in 2003 and 2007, respectively.

Board composition

This shows the proportion of non-executives appointed to the firm's board in listed companies in the UAE. Descriptive statistics for board composition show that the minimum number of non-executive members is 0.33. This implies that the minimum number (one-third of the board) of independent directors on the board, which is set by the corporate governance code in the UAE Listing Requirements, is deemed very important. Non-executive directors enhance board processes and decision-making in companies based on their backgrounds, attributes, characteristics and expertise, and therefore enhance firm performance. This is in line with the findings of Cadbury (1992), who suggests that non-executive directors should be prohibited from any business or links that could affect their implementation of independent decisions, and that they should be independent from management. The mean value of non-executive members on the board is 0.69. This confirms that the majority of companies in the UAE have complied with the 2009 requirement that the majority of board members should be non-executive members. The implication of these findings is that UAE listed companies try to attract more outside board members with a wide range of expertise and skills to be more competitive in a demand-driven market.

Audit committee independence

The results of this study indicate that an audit committee dominated by independent members is significantly related to both accounting-based and market-based measures of performance. The descriptive statistics presented in Chapter 8 showed that the minimum number of independent members of an audit committee was 0.40, and the maximum was one. The average percentage of independent members in audit committees in listed companies in the UAE is 76%. These findings mean that the audit committee mostly comprises independent directors (at least 40%) in all companies. This result complies with the UAE Code of Corporate Governance (2009), as the SCA requires an audit committee consisting of at least three non-executive board members, of whom at least two members should be independent members in listed companies. This result is also supported by the Australian Corporate Governance Principles and Recommendations, which requires companies to have an independent audit committee with a minimum of three independent directors. The NYSE considers an audit committee independent only if all directors are independent from management (NYSE, 2003).

9.7 Corporate Governance Principles and Firm Performance

This study tested the relationship between the implementation of corporate governance principles and the firm performance of listed companies in the UAE. Corporate governance principles were measured using a CGI. This index, as described in Chapter 7, was constructed to measure the OECD Principles of Corporate Governance: rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and board responsibilities. As mentioned in Chapter 4, the hypothesis is that the implementation of corporate governance principles has a positive influence on the firm performance of listed companies in the UAE.

According to the stakeholder theory perspective, there is a significant relationship between the implementation of good corporate governance and firm performance. Regression results show a positive relationship between the implementation of corporate governance and the ROA, the ROE and Tobin's Q. These results show that the implementation of corporate governance principles in the listed companies could influence the accounting-based and market-based measures of firm performance. The regression results imply a statistically significant positive relationship between corporate governance principles and firm performance. The first hypothesis (H1) of the study was that the implementation of corporate governance principles has a positive association with firm performance. The results of the regression support the hypothesis (H1).

Analysis and implication

The present result confirms the findings of Li and Tang (2007), Dao (2008), Sunityo-Shauki and Siregar (2007), Cheung et al. (2011) and Kalezić (2012). The previous empirical results show that corporate governance positively affects the performance and value of listed companies. The results showed that good corporate governance practices can predict future performance in listed companies, as shown by the improvement in the implementation of corporate governance principles in listed companies in the UAE in this study. The average score for the implementation of the CGI is 3.81, as discussed in Chapter 7.

The results signify that the implementation of corporate governance principles is enhanced in listed companies in the UAE based on the OECD Principles of Corporate Governance, and it has taken into account the UAE Code of Corporate Governance. The results may be explained by the fact that emerging economies focus on building investor confidence to attract local and foreign investment and expand trade; thus, good corporate governance should be established (Abhayawansa & Johnson, 2007). Therefore, the implication of the findings is that UAE listed companies implement corporate governance principles to provide a foundation to protect the interests of all stakeholders and alleviate possible conflicts between stakeholders and management.

The positive relationship between firm performance and the implementation of corporate governance principles is in accordance with the stakeholder theory perspective. The correlation results also confirm that the implementation of corporate governance principles has a positive effect on firm performance in listed companies because the implementation of corporate governance principles enables effective monitoring, helps firms to attract investment, raises funds with a low capital cost, generates long-term economic value and enhances firm performance (Sengur, 2011). The present results suggest that a key best practice of corporate governance is establishing a clear relationship between stakeholders and management, as well as considering the interests and demands of all stakeholders, thereby leading to longer-term business.

The implementation of corporate governance principles is vital to good corporate governance in the UAE, as shown in the conceptual framework. This study supports the stakeholder theory in the MENA region, particularly the UAE, implying that the corporate governance principles are effective in monitoring and enhancing firm performance. Based on the stakeholder theory, this research revealed a positive association between firm performance and corporate governance principles, which results in the management of relationships with all stakeholders. The results show that management that consider all stakeholders' interests reported improvements in their firm's financial performance (measured by ROE and ROA) and higher market value or Tobin's Q. The reason for this finding is that the corporate governance code in the UAE was established based on the OECD Principles of Corporate Governance, which require good corporate governance practice catering to the interests of all stakeholders. The results imply that listed companies in the UAE can improve their firm performance by implementing good corporate governance principles.

9.8 Board Size and Firm Performance

Board size was one of the corporate governance mechanisms used as a variable to test the relationship between corporate governance and firm performance. The hypothesis that board size influences the performance of listed companies was built on the argument that there is a significant negative relationship between a board's size and its performance. The conceptual framework is based on the same argument. However, the regression analysis results did not show a significant relationship between the size of the company and the ROA, ROE and Tobin's Q. Therefore, the second hypothesis (H2) of the study, that board size has a significant relationship with firm performance, was rejected.

Analysis and implication

The present study did not find a significant relationship between the size of the board of directors and firm performance. This is inconsistent with several researchers, who find positive significance between board size and firm performance (Pearce & Zahra, 1992; Kiel & Nicholson, 2003; Latif et al., 2013). However, others find no significant negative relationship between board size and firm performance (Chaghadari, 2011; Topak, 2011; Kajola, 2008). The present study also supports previous empirical studies by Jensen (1993), Liang and Li (1999) and Rahman and Ali (2006).

The correlation results of the study show that board size was negatively correlated with three different measures of performance (ROA, ROE and Tobin's Q), but the relationship was not significant. The findings are consistent with the conclusions drawn by Shakir (2008) and Bozeman and Sarewitz (2005), who find a negative relationship between board size and firm performance. This could be explained by Yermack (1996), Eisenberg, Sundgren and Wells (1998), Conyon and Peck (1998) and Loderer and Peyer (2002), who find that a large board size can lead to the free-rider problem, where some board members play a passive role in monitoring the firm. This means that a larger board size negatively affects performance.

The results of the present study suggest that board size can negatively influence the performance of companies, albeit not significantly. This supports the agency theory, which suggests that a large board size hinders the performance of the CEO and the organisation. This confirms the findings of Haniffa and Hudaib (2006), who argue that a large board is less effective in monitoring performance and may be costly for companies in terms of compensation and increased incentives. Further, Jensen (1993) argues that a company should have a small board size to be effective in monitoring and enhancing performance. In addition, Lawal (2012) states that most of the previous literature has confirmed that small boards are more efficient and effective, and thus more likely to enhance firm performance. The finding regression analysis of this study concludes that there is no significant relationship between board size and firm performance in listed companies in the UAE.

9.9 Leadership Structure and Firm Performance

The leadership structure was another corporate governance mechanism used as a variable to test the relationship between corporate governance mechanisms and firm performance. As explained in Chapter 5, the leadership structure is hypothesised to have a positive relationship with firm performance in listed companies. This argument was built on the agency theory perspective, which assumes a significant relationship between firm performance and a separate leadership structure. The regression analysis in Chapter 8 revealed a statistically significant relationship between a separate leadership structure and financial performance, particularly ROA and ROE. This result suggests that a separate leadership structure influences the firm performance of listed companies. However, the regression results did not find a statistically significant relationship between a separate leadership structure and market value (measured by

Tobin’s Q). Therefore, the third hypothesis (H3) of the study, that separate leadership has a positively significant relationship with performance, was accepted.

Analysis and implication

The results of the present study are consistent with prior research on the relationship between firm performance and a separate leadership structure (see Chaghadari, 2011; Rahman & Haniffa, 2005; Abdullah, 2006; Elsayed, 2007; Mashayekhi & Bazaz, 2008; Jackling & Johl, 2009; Rashid et al., 2010; Ujunwa, 2012; Coskan & Syiliar, 2012). These previous researchers find no significance between the combined position of CEO and chairman and firm performance. The present study explains that the separation of the roles of CEO and chairman is more common among listed companies in the UAE than it is in developed countries such as Australia and the UK. Therefore, the separate role of the CEO significantly influences the firm performance of UAE listed companies.

The correlation results of the leadership structure and the performance measures confirmed the regression results, which showed that a separate leadership structure is positively correlated with ROA and ROE, but has no relation with Tobin’s Q. These results imply that a separate leadership structure influences the financial performance of the listed companies, but is not significantly related to the market value. This means that listed companies in the UAE report better accounting results with a separate leadership structure. Conversely, the results on market-based measures were not significant. These results are similar to those of Haniffa and Hudaib (2006), who find that a separate leadership structure is significantly related to the accounting-based measures of firm performance (ROA and ROE), but not to the market-based measure of firm performance (Tobin’s Q).

In the present study, Tobin’s Q was not significantly related to a separate leadership structure. An insignificant relationship between separate leadership structure and Tobin’s Q shows that a separate leadership structure has no effect on market value. This is consistent with the findings of Kiel and Nicholson (2003), who report a significant positive relationship between a combined leadership structure and Tobin’s Q. Heenetigala and Armstrong (2011) conclude that this may be because the leadership structure on its own might not have been recognised by the market. Further, the present study explains that different markets/systems around the world could affect the relationship between firm value and separate leadership structure.

The separation of the role of the CEO and chairman is essential in alleviating issues of corporate governance practices in a firm (Brickley, Coles & Jarrell, 1997; Dalton et al., 1998; Dedman & Lin, 2002). The agency theory believes that the combined position of CEO and chairman reduces the effectiveness of board monitoring by promoting CEO entrenchment. Consequently, the agency theory indicates that CEO duality has a negative effect on firm performance (Yu, 2008). If the CEO also holds the chairman position, then the CEO would be dominant and might maximise his or her own interests at the expense of the shareholders because other individuals would not monitor the CEO’s actions (Yusoff & Alhaji, 2012). This argument is supported by the agency perspective that the separation of the responsibility of the CEO and the chairperson is the main monitoring mechanism (Abidin, Kamal & Jusoff, 2009).

The separation of leadership is a vital corporate governance mechanism in improving the firm performance of listed companies in the UAE. An analysis of the practices of listed companies in the UAE shows that most companies comply with the UAE Code of Corporate Governance. The implication of the separate leadership structure is that the board is monitoring the CEO more objectively and effectively. The board of directors delegates responsibilities to the CEO, who manages the day-to-day affairs of the company. Thus, the CEO is accountable to, and plays a major role in, the improvement of the firm’s performance. Therefore, the results, along with the conceptual framework, assume that the separation of the leadership positions of chairman and CEO, which is associated with the agency theory, protects shareholders and enhances firm performance. Therefore, the separate leadership structure improves effective monitoring and management, resulting in enhanced firm performance in the UAE.

9.10 Board Composition and Firm Performance

Board composition was measured as the percentage of the number of non-executives to the total number of members on the firm’s board. As explained in Chapter 4, the hypothesis is that a board comprising a majority of non-executives positively affects the firm performance of listed companies in the UAE. The agency theory perspective assumes a significant relationship between board composition and firm performance. The regression results show that the board composition has a statistically significant positive relationship with ROA, ROE and Tobin’s Q. This means that having a majority of non-executives on the board could influence the different measures of firm performance. The fourth hypothesis (H4) of the study was that board composition has a positive relationship with firm performance. The results of the regression analysis support the hypothesis (H4).

Analysis and implication

These findings contradict several research studies that examine the relationship between corporate governance and firm performance (Kajola, 2008; Kiel & Nicholson, 2003; Yusoff & Alhaji, 2012). The results indicate a negative relationship between board composition and firm performance. Conger and Lawler (2009) and Siladi (2006) argue that the reason for these previous findings is that the non-executive members have some difficulty in understanding their companies' functions and in confirming the decisions made because they lack company information. Thus, the number of non-executive directors has a negative effect on firm performance.

Conversely, this finding is in agreement with Khan and Awan (2012), Heenetigala and Armstrong (2011) and Rashid et al. (2010), who find a positive relationship between non-executive directors and firm performance measured by ROA, ROE and Tobin's Q, as discussed in Chapter 3. This implies that appointing more non-executive directors to the board would lead to an improved performance. The selection of a majority of non-executive directors would strengthen the board's independence, allow it to carry out its monitoring role effectively and ensure competition among the executive directors, which would enhance firm performance (Tornyeva & Wereko, 2012). These results support the argument in the agency theory that the appointment of more non-executive directors to the board would lead to enhanced performance.

Correlation analyses were performed to explain the relationship of board composition with each firm performance measure, namely ROA, ROE and Tobin's Q. The results show that board composition has a significant positive correlation with firm performance. This finding is similar to Mashayekhi and Bazaz (2008), Ehikioya (2009), Uadiale (2010) and Heenetigala and Armstrong (2011). The current result may be explained by the fact that non-executive directors are not involved in the operational activities of the company, so they can avoid unresolved conflicts of interest and thus be in a position to examine issues objectively, which would help to enhance performance (Lorsch, 1995). Consequently, non-executive directors can protect shareholder interest, perform monitoring and control functions to contribute considerably to firm resources, and play an essential role in the long-term performance of the company (Kumar & Singh, 2012).

Board composition is important in controlling managers and limiting agency costs (Weir, 1997). The high proportion of outside directors on the board is considered in corporate governance because the agency theory implies that adequate monitoring mechanisms need to be established to protect shareholders from managements' self-interests (Jackling & Johl, 2009). Therefore, Baysinger and Butler (1985) state that non-executive directors enable better firm performance. The agency theory suggests that encouraging the involvement of non-executive directors should control any opportunistic activities of the management and reduce agency costs (Marn & Romuald, 2012).

According to the conceptual framework in Chapter 4, the board composition is an important characteristic of corporate governance in the UAE. This study supports the agency theory in the context of an emerging economy such as the UAE, implying that the board composition influences monitoring and firm performance. This research finds a positive relationship between firm performance and having a majority of non-executive directors. Based on the agency theory, this results in accountability to shareholders. The findings show that boards' accountability to shareholders results in increased financial performance through ROE and ROA, and in higher market value or Tobin's Q. This may be because of the corporate governance code requirement of an adequate board composition, with the majority being non-executive directors. The implication of this is that listed companies in the UAE can enhance their performance by increasing the number of non-executive directors on their boards.

9.11 Audit Committee Independence and Performance

Audit committee independence was used as a corporate governance mechanism in this study. It was measured as the number of independent members to the total number of audit committee members in the firm's board. The hypothesis is that audit committee independence positively influences the firm performance of listed companies in the UAE, as discussed in Chapter 4. The findings show a statistically significant positive relationship between audit committee independence and firm performance measured by ROA, ROE and Tobin's Q. The results are in line with the agency theory perspective, which assumes a significant relationship between audit committee independence and firm performance. The fifth hypothesis (H5) of the research was that audit committee independence has a positive relationship with firm performance. The results of the regression analysis support the hypothesis (H5).

Analysis and implication

The present study contradicts work by Kajola (2008), Al-Matari et al. (2012) and Ghabayen (2012), who find that having a majority of independent non-executive directors in the audit committee does not have a significant influence on firm performance. Nevertheless, the findings of the current study are consistent with those of Chan and Li (2008), Triki and Bouaziz (2012) and Hamdan, Sarea and Reyad (2013), who find a significant positive relationship between firm performance and audit committee independence, as discussed in Chapter 3. The results show the crucial role of the audit committee in protecting the interests of shareholders, as well as the effect of the audit committee's characteristics on financial performance. Al-Matari et al. (2012) report that a positive relationship between audit committee independence and firm performance is expected, and that an independent audit committee can reduce agency problems.

The positive relationship between audit committee independence and firm performance is in line with the agency theory perspective. Correlation results confirm that audit committee independence has a positive effect on firm performance in listed companies. The establishment of audit committees as subcommittees of boards is significant in enhancing the corporate governance mechanisms in firms to protect the interests of shareholders relative to financial oversight and control (Mallin, 2007). The possible explanation for this result is that the audit committee has oversight responsibility for preparing the financial statements, reducing the chances of earnings restatements and improving the credibility and integrity of financial information produced by the company by identifying potential fraud in the financial statements (Tornyeva & Wereko, 2012). Therefore, the audit committee increases investors' confidence in a firm and ensures the proper utilisation and maximisation of the shareholders' funds (Ojulari, 2012). The committee is highly independent of management to ensure transparency, monitor management effectively and improve performance (Klein, 1998; Erickson et al., 2005).

A significant relationship between an audit committee's independence and firm performance in the UAE confirms the agency theory view. The audit committee monitors mechanisms that enhance the quality of information between principals and agents, which in turn helps to minimise agency problems (Rouf, 2011). Likewise, Klein (1998, p. 279) states that audit committees 'alleviate the agency problem by facilitating the timely release of unbiased accounting information by managers to shareholders, creditors and so on, thus reducing the information asymmetry between insiders and outsiders'. The independence of the board is strongly linked with the level of monitoring of management and the reduction in agency costs (Fama & Jensen, 1983b). According to the agency theory, the independent members of an audit committee can reduce the benefits from withholding information and assist shareholders in monitoring managers' activities (Mohamad & Sulong, 2010). The results of this study support the agency theory, which suggests that audit committees might mitigate agency problems, leading to reduced agency costs by aligning the interests of controlling owners with those of the company (Al-Matari et al., 2012).

The appointment of independent members on audit committees is an essential corporate governance mechanism in enhancing the firm performance of listed companies in the UAE. The results on audit committee independence confirm that listed companies in the UAE fulfil the UAE Code of Corporate Governance. The implication of having an independent audit committee is that it monitors management and increases transparency. Thus, the outcome is consistent with the conceptual framework of this research, which presumes that audit committee independence reduces information asymmetry problems and monitors management, thus enhancing firm performance. This means that audit committee independence enables effective monitoring and management, resulting in enhanced firm performance in the UAE.

9.12 Summary of the Results of the Relationship between Corporate Governance Practices and Firm Performance

The summary of the result of the relationship between corporate governance and firm performance in the listed companies of the UAE is presented below.

Hypothesis 1 relates to the implementation of good corporate governance principles, as well as the positive effect this has on firm performance in listed companies. The empirical results of the study support this hypothesis. The findings confirm the stakeholder theory, which suggests that the implementation of good corporate governance takes all stakeholders into consideration and facilitates a good relationship with them.

Hypothesis 2, relating to the negative effect that a large board of directors can have on firm performance, was rejected in relation to the listed companies. The agency theory suggests that the size of the board has a negative effect on firm performance; that is, members of a large board are likely to focus more on their own interests than on shareholders' interests, which negatively affects overall firm performance.

Hypothesis 3 confirms the positive effect of separate leadership on firm performance, whereby splitting the role of chairman and the role of CEO in the listed companies results in better performance through increased monitoring. This hypothesis was accepted. These findings support the agency theory, which implies that separate leadership structures result in more effective monitoring and management and have led to improved firm performance in the listed companies.

Hypothesis 4 suggests that the composition of the board can have a positive effect on firm performance, and that a majority of non-executive directors on the board may positively influence firm performance. This hypothesis was accepted, which supports the agency theory that a majority of non-executive directors on the board can provide adequate monitoring mechanisms to protect shareholders' rights and enhance firm performance.

Hypothesis 5 states that audit committee independence has a positive effect on firm performance. This finding supports the agency theory, which assumes that allowing audit committees to be independent reduces information asymmetry problems by enabling management to be monitored and transparency to be increased, thereby resulting in enhanced firm performance in the listed companies.

9.13 Conclusion

This chapter discussed the findings of the questionnaire survey and the secondary data from the company reports. The results suggest that the stakeholder model is considered the model that is best suited to corporate governance in listed companies in the UAE.

The findings also conclude that the corporate governance principles and mechanisms applied in the listed companies have been strongly influenced by the UAE Code of Corporate Governance. These results determine possible factors that could prevent or enable the implementation of effective corporate governance in the listed companies. Policymakers and regulators should consider these factors to improve corporate governance practices in listed companies in the UAE.

In addition, this chapter included a discussion regarding the effects of corporate governance practices on firm performance in listed companies in the UAE, as well as the implications of those effects. The relationships described in the hypotheses between corporate governance practices and firm performance were tested for statistical significance and were discussed in terms of the agency and stakeholder theories, the available literature and the context of the research. According to the results, companies that implement corporate governance principles and mechanisms based on the relevant UAE Code of Corporate Governance perform better. The implication of this finding is that listed companies can improve firm performance by implementing effective corporate governance principles and mechanisms. In addition, the stakeholder–agency theoretical framework adopted by the current study is greatly supported by the study's findings. A summary, conclusions and scope for further research will be discussed in Chapter 10.

Chapter 10: Summary, Findings and Conclusions

10.1 Introduction

As set out in Chapter 1, the main objective of this study is to investigate the current state of corporate governance and its effects on the firm performance of listed companies in the UAE. This thesis is primarily motivated by the extent to which listed companies in the UAE are complying with the Code of Corporate Governance, which was introduced in 2007 and reformed in 2009, and the research investigates stakeholders' perceptions concerning corporate governance principle in listed companies in the UAE. In addition, there has been a scarcity of prior comprehensive academic studies in the area concerning the corporate governance principles and mechanisms with firm performance in the MENA region, particularly the UAE (Piesse, Strange & Toonsi, 2012; Hassan, 2011; Hasan, Kobeissi & Song, 2011). Moreover, the pressures from global financial crises on the UAE have placed greater importance on corporate governance (Ahmad, 2010).

Good corporate governance practices in the Gulf countries could assist firms and investors to build up a confident relationship to develop company performance (Al-Matari et al., 2012). An improvement in firm performance is among the potential benefits. Hence, the corporate governance debate in the UAE has drawn the attention of all stakeholders to the linkages between the corporate governance systems, as well as firm performances in listed companies in the UAE. The major purpose of this study was to fill the above gap and develop a corporate governance model that, implemented in listed companies, could introduce the benefits of this concept to their stakeholders. To achieve this aim, the study had several broad objectives:

- explore the nature and extent of the development of corporate governance practices in the context of the UAE business environment
- identify corporate governance as understood in the UAE context
- examine stakeholders' perceptions concerning corporate governance principles in listed companies in the UAE
- identify possible obstacles to, and enablers of, the implementation of good corporate governance in the UAE

- analyse the corporate governance mechanisms of the listed companies and their extent of compliance with the corporate governance code among listed companies in the UAE
- investigate relationships between corporate governance practices on firm performance in listed companies in the UAE
- develop a corporate governance model that is appropriate for the UAE and that includes corporate governance principles that consider all stakeholders' interests.

This study has comprehensively covered a wide range of issues relating to corporate governance practices in the UAE. The main aim of this chapter is to provide a chapter-by-chapter overview. It also reviews the descriptive statistics of the questionnaire results and the secondary data. In addition, it discusses the relationship between corporate governance practices and firm performance to determine whether good corporate governance practices in the UAE have resulted in shareholder accountability and a good relationship between the management and all stakeholders through firm performance. In addition, a summary of the significance of this study, in terms of its academic and practical contributions, is presented. It also highlights some policy implications of the study and the model of corporate governance, it acknowledges some limitations, and it makes several recommendations for further study.

The structure of this chapter is as follows: Section 10.2 provides a summary of each chapter of this thesis, while the major findings of this study are presented in Section 10.3. The policy implications of this research are presented in Section 10.4, and the developing model of corporate governance is documented in Section 10.5. Section 10.6 provides a summary of the significance of this study in terms of its academic and practical contributions. Section 10.7 points out some limitations of the research, while Section 10.8 highlights a summary of the suggestions for future research.

10.2 Thesis Review

The nature of the research was introduced in Chapter 1, which covered the background of the study, an environmental analysis, literature review, methodological issues, findings and implications of this study, with the principles and issues for investigation, research objectives and methodology employed. Chapter 2 examined the UAE environment in an attempt to understand how the country's political, legal and economical structures contributed to the study findings, as well as the historical development of capital markets and corporate governance practices. Further explanation was provided regarding the development of corporate governance in the UAE, followed by the corporate governance code of the UAE in 2009, and the accounting and auditing profession in the UAE.

Chapter 3 presented the development of corporate governance practice. In particular, this chapter started with the various definitions of corporate governance and discussed the two main corporate governance systems as practiced around the world. Further, the chapter reviewed the historical development of corporate governance in the UK, the US and Australia. It also included the OECD Principles of Corporate Governance, followed by an explanation of corporate governance mechanisms.

Chapter 4 extensively reviewed the previous theoretical and empirical literature relating to this area of study. It outlined the benefits of the implementation of good corporate governance practices. The role of the OECD Principles of Corporate Governance in the improvement of MENA corporate governance was discussed in this chapter. The chapter also presented a literature review relating to corporate governance practices in developing countries, particularly in the MENA region. Further, the chapter reviewed the previous research that investigated the relationship between corporate governance practices and firm performance. Chapter 4 also identified the limitations in the literature on corporate governance in the MENA region, such as the UAE, and developing countries in general.

Chapter 5 discussed the structure for this research. The corporate governance practice framework, as developed by corporate governance principles and mechanisms (board size, leadership structure, board composition and audit committee independence), was introduced and discussed in detail. The conceptual framework of the study was designed to find the relationship between corporate governance principles and corporate governance mechanisms and the firm performance of listed companies in the UAE. The theoretical framework explained that the theoretical perspective of the study was based on the agency theory in relation to the management accountability of the shareholders and the stakeholder theory that manages the good relationship between management and all stakeholders. The conceptual framework explained how the good corporate governance practices of firms in the UAE could affect firm performance.

Chapter 6 introduced the methodology employed in this study, which was a quantitative research methodology. The data were selected using a questionnaire instrument that was discussed in detail. The study participants were selected from five major stakeholder categories: board member, manager, audit committee member, internal auditor and accountant. Further, the secondary method of data collection was used to collect data. Data for the variables were collected from corporate governance reports and published sources such as companies' annual reports. The data were also collected from the ESCA, ADX and DFM. The variables used to test these hypotheses were based on corporate governance principles, CGI and corporate governance mechanisms recommended in the Code of Best Practice on Corporate Governance in the UAE. Firm performance in the study was measured using ROE, ROA and Tobin's Q ratio. The CGI, which was measured using the OECD Principles of Corporate Governance and board size, leadership structure, composition board and audit committee independence, was utilised to measure the corporate governance mechanisms in listed companies in the UAE. The SPSS and Stata statistical programs were used to calculate the descriptive, parametric and non-parametric tests, the econometric tests and the panel data regression for the relationship of the variables in the framework. Similar methodologies were used in previous studies, and they were appropriate for the current study due to the sample size and characteristics of the data.

Chapter 7 described the results of the data collected from the questionnaire survey, which were reported in Chapter 6. This descriptive analysis chapter presented the demographic information on the participants. The concept of corporate governance and the current state of the implementation of corporate governance principles were described. In addition, the possible barriers and enablers of the implementation of good corporate governance in the UAE were identified. As a result, the descriptive findings were presented in this chapter, using frequencies, percentage, rank, mean and standard deviations. To investigate whether there were any significant differences in the different responding groups, two non-parametric tests (namely, the Kruskal–Wallis test and the Mann–Whitney Test) were used.

Chapter 8 described the descriptive analysis chapter, index of corporate governance principles constructed from the questionnaire responses, corporate governance mechanisms, firm performance measures and control variables from the secondary data collection. Descriptive analyses such as means, standard deviations, skewness and kurtosis were presented in this chapter. In addition, a bivariate analysis was undertaken using both parametric and non-parametric tests. The Pearson correlation and Spearman's rank correlation were used to examine the correlation between independent, dependent and control variables. The OLS and GLS regression techniques were used to test the hypotheses of the study. Further, sensitivity analysis used an OLS pooled regression to examine the sensitivity of the results. Chapter 9 discussed the implications of the results presented in Chapters 7 and 8.

10.3 Summary of the Main Results of the Study

The descriptive statistics from the analyses of the questionnaire survey were presented in Chapter 6. The main objective of the questionnaire in this research was to survey respondents' perceptions regarding the concept of corporate governance and the implementation of corporate governance principles in the UAE. It also attempted to identify the possible obstacles and enablers that face the implementation of corporate governance in the UAE. The descriptive statistics from the secondary data were presented in Chapter 8. They provided the analysis of corporate governance mechanisms in the UAE. Accordingly, this section provides a summary of the main findings from the research in relation to answer following research questions:

- How is corporate governance understood by stakeholders in the UAE?
- What is the corporate governance structure of listed companies in the UAE, and to what extent do listed companies in the UAE comply with the corporate governance code?
- What are the perceptions of stakeholders concerning the current state of the implementation of corporate governance in the UAE?
- Is there a relationship between corporate governance and the performance of listed companies in the UAE?
- What are the possible obstacles/enablers to the implementation of the best corporate governance in the UAE?

10.3.1 Results of questionnaire

Descriptive statistics were first used in this study to define the characteristics of the participants of the study and to assist in answering the research questions. The descriptive results for the second part of the questionnaire showed that most participants agreed with the definition of corporate governance that is appropriate for the UAE (based on the stakeholder perspective), and they also agreed that the implementation of corporate governance is important for all stakeholders, including shareholders, investors, managers/CEOs, employees, creditors (e.g., banks, suppliers), customers, auditors, government and the local community. These findings confirm that stakeholders' perceptions are consistent with the view of the OECD (2004), which indicated that corporate governance engages in a set of relationships between a company's management, its board, its shareholders and other stakeholders. The stakeholder model is the appropriate definition of corporate governance in the UAE context from the stakeholders' perspective. This result is in line with Iqbaland and Mirakhor (2004) and Wanyama, Burton and Helliar (2013), who found that corporate governance is considered a relationship with a range of stakeholders, and that the stakeholder model is proper in the Islamic economic system.

The third part of the questionnaire presented the results of the perspective of the current practice of corporate governance in the UAE. The results showed that most respondents agreed concerning the implementation of corporate governance principles, which include: rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and responsibility of board directors. This is consistent with Mubarak (2012), who reported that the code of corporate governance in the UAE was established based on the OECD Principles of Corporate Governance, which require good corporate governance practice. In summary, the findings of the present study revealed that corporate governance principles have been implemented in listed companies, reflecting the introduction of the Code of Corporate Governance in 2009 in the UAE. In addition, the results confirmed that the stakeholder theory is applicable for the MENA region, particularly in the UAE.

Part four of the questionnaire results showed the perspective of participants concerning possible obstacles influencing the implementation of corporate governance practices in the UAE. The findings showed that 40%–68% of respondents agreed that the items in the list of possible barriers might affect the implementation of corporate governance in the UAE, as described in Chapter 6. The results suggested that culture of the UAE community were regarded as the most important, followed by poor accounting and auditing, lack of legal controls and law enforcement, lack of legal and regulatory systems that govern companies' activities, and the poor quality of finance education.

In relation to how corporate governance should be improved in listed companies in the UAE, the results from part five of the questionnaire indicated that, in general, most respondents agreed with the items in the list of enablers that was investigated. The wide adoption of International Accounting Standards was ranked as the most important enabler, followed by learning from the experiences of other countries in relation to the corporate governance practices described in Chapter 7. The agreement of respondents reflected the reported high mean scores and frequencies. Despite the general agreement in opinion between the respondents, there were also some significant differences regarding certain items on the questionnaire. In general, these differences represented the variance in the level of agreement, with some respondents agreeing more strongly with the statement than others.

10.3.2 Results of secondary data

The descriptive statistics for the variables of the corporate governance mechanisms were presented in Chapter 8. The compliance of listed companies in the UAE with the Code of Corporate Governance was used as a variable to describe board size, leadership structure, board composition and audit committee independence in this study. The descriptive statistics included the mean, standard deviations, minimum and maximum. The detailed analysis revealed that most of the listed companies complied with the Code of Corporate Governance in the UAE.

The descriptive statistics for the board size of listed companies in the UAE reported a minimum board size of five members, while the maximum was 15 members; a mean value of 7.6 members was indicated. In the UAE, commercial law suggests that the board of directors for listed companies should consist of 3–12 members. This result is consistent with Jensen and Ruback (1983), who argue that a board size of 7–8 members would help guarantee the board's effectiveness. Lipton and Lorsch (1992) recommended a board size of 8–9.

The leadership structure referred to the roles of the chairman and the CEO, which are separated in the listed companies. The minimum number for the leadership structure in the listed companies was 0, which means there was no separation of leadership, while the maximum was 1, indicating the separation of the chairman and CEO roles. The descriptive statistics for the leadership structure reported a mean value of 80%, which confirmed that most companies complied with the Code of Corporate Governance in the UAE in relation to leadership structure.

The board composition of companies showed the extent of the board's composition in the listed companies. It was measured by the proportion of non-executives who were appointed to the firm's board in listed companies in the UAE. The descriptive statistics for the composition, measuring the number of non-executives, reported a minimum value of 33% for independent members, while the mean value was 69%. These results showed that the majority of companies in the UAE had complied with the 2009 requirement that the majority of board members should be non-executive directors in listed companies.

The analysis of audit committee independence examined the existence of independent members on the audit committees of listed companies in the UAE. In analysing the data, audit committee independence was measured by comparing the number of independent members to the total audit committee members in listed companies in the UAE. The descriptive results for audit committee independence reported a maximum value of 100% and a minimum value of 40%, while the mean value was 76%. This result complies with the UAE Code of Corporate Governance (2009), as the ESCA requires that the majority of the audit committee's members be independent members.

10.3.3 Results and implications of the relationship between corporate governance and the performance of listed companies in the UAE

The results of the econometric tests in two empirical models helped to determine the influence of corporate governance practices on the performance of the listed companies. The first model examined the relationship between corporate governance principles and firm performance. The second model tested the relationship between the corporate governance mechanisms and firm performance in listed companies in the UAE. As discussed in Chapter 5, the testing of the hypotheses was carried out for the current research. The results of the hypotheses are discussed below.

H1: The implementation of the corporate governance principles positively influences the performance of listed companies.

The first hypothesis of the study (H1) concerned the influence of the implementation of corporate governance principles, and it is suggested that the implementation of corporate governance principles had a positive effect on the performance of listed companies. The results indicated a statistically significant relationship between the CGI principles and firm performance: the accounting-based (ROA and ROE) and market-based measures (Tobin’s Q) of the listed companies. These results are consistent with previous literature, such as Li and Tang (2007), Dao (2008) Sunityo-Shauki and Siregar (2007), Cheung et al. (2011) and Kalezić (2012), who found that the current practice of corporate governance based on the OECD Principles influences firm performance (ROA, ROE and Tobin’s Q). According to the stakeholder theory, good corporate governance practice manages the relationship between the management and the stakeholders, and it improves firm performance. The present study’s results supported the above arguments, and the above hypothesis was accepted.

H2: Board size influences the performance of listed companies.

The second hypothesis (H2) was that the ‘board size was related to the performance of the listed companies’. The hypothesis was built on the argument that there is a significant relationship between a board’s size and its performance. Larger boards lead to inconsistency and inefficiency of decisions due to a lack of cohesiveness among its members, and the free-rider problem. The analysis results did not show a significant negative relationship between the size of the company and the ROA, ROE and Tobin’s Q. These findings are in line with previous research (Jensen, 1993; Liang & Li, 1999; Rahman & Ali, 2006; Chaghadari, 2011; Topak, 2011; Kajola, 2008), which did not find a significant relationship between board size and firm performance in listed companies. The present result did not support the arguments of the agency theory and thus rejected the second hypothesis (H2) of the study, which suggested that the board size has a significant relationship with firm performance.

H3: Leadership structure positively relates to the firm performance of listed companies.

The third hypothesis (H3) of the study was that ‘Leadership structure positively relates with the firm performance of listed companies in the UAE’, which was constructed to support the argument that performance improves through the separation of the position of the CEO and chairman to improve monitoring and enhance performance. The results reported a significant and positive relationship with ROA and ROE. The results of the present study are supported by prior research on the relationship between firm performance and a separate leadership structure (see Rahman & Haniffa, 2005; Abdullah, 2004; Elsayed, 2007; Mashayekhi & Bazaz, 2008; Jackling & Johl, 2009; Rashid et al., 2010; Coskan & Syiliar, 2012).

However, the relationship between separate leadership structure and Tobin's Q was insignificant, thus showing that a separate leadership structure had no effect on market value. This result is consistent with Kiel and Nicholson (2003) and Heenetigala and Armstrong (2011). In general, the results of the current study found that separate leadership structure has a positive relationship with accounting-based measures of firm performance (ROA and ROE), but not in the market-based measure of firm performance (Tobin's Q). The results supported the argument of the agency theory, which suggests that the combined position of the CEO and the chairman reduces the effectiveness of board monitoring by promoting CEO entrenchment. The agency theory indicates that CEO duality has a negative effect on firm performance. The third hypothesis (H3), which proposed that separate leadership has a positive significant relationship with performance, was accepted.

H4: A majority of non-executive directors has a positive relationship with the performance of listed companies.

The fourth hypothesis (H4) concerned board composition, and it was suggested that a majority of non-executives has a positive relationship with the firm performance of listed companies due to adequate monitoring by outside directors who protect shareholders' interests, leading to improved firm performance. The results on board composition and firm performance in listed companies suggested a positive relationship between both accounting-based measures and market-based measures. This finding is consistent with prior research, including Rashid et al. (2010), Heenetigala and Armstrong (2011), Khan and Awan (2012) and Tornyeva and Wereko (2012), who found that having a majority of non-executive directors on the board could increase the board's independence, as the increased effectiveness of the monitoring role would enhance firm performance. This result supports the agency theory, which assumes that non-executive directors provide sufficient monitoring mechanisms to protect shareholders from managements' self-interest (Jackling & Johl, 2009). Consequently, the present study suggests that a majority of non-executive directors on the board is an important element of firm performance for listed companies in the UAE.

H5: Audit committee independence has a positive relationship with the firm performance of listed companies.

The fifth hypothesis (H5) was concerned with audit committee independence, and it was suggested that audit committee independence has a positive relationship with the firm performance of listed companies, as having a higher number of independent members on the audit committee reduces information asymmetry problems and helps to monitor management, hence enhancing firm performance (Fama & Jensen, 1983b). The results reported a significant and positive relationship with firm performance with accounting-based and market-based measures. This finding is supported by the studies of Chan and Li (2008), Hamdan, Sarea and Reyad (2013) and Triki and Bouaziz (2012), which discovered a significant positive relationship between audit committee independence and firm performance. This supports the argument that the audit committee alleviates the agency's problems by reducing information asymmetry between the management and shareholders (Klein, 1998). As a result, audit committee independence significantly contributed to firm performance, with increased profitability and market value for listed companies in the UAE.

10.4 Implications for Policy

The aims of this thesis are to advance the corporate governance research agenda by describing the governance practice and examining the corporate governance principles, mechanisms and firm performance and any relationship between them, in the context of the UAE. The current study provides new evidence from a developing country that contributes to the existing literature on the effect of corporate governance principles and mechanisms on firm performance and to developing the model of corporate governance in the UAE, in particular, and to the MENA region, in general. The findings of this research study have important policy implications for the region. Indeed, it can be argued that they are generalisable to the MENA region and other developing nations that might have similar cultural and social antecedents. As a result of the findings from this study and the review of the corporate governance reports of listed companies, the UAE government should review the Corporate Governance Code in the UAE and give more attention to the following policy implications.

As discussed in Chapter 2 the UAE government has introduced and reformed relevant regulations and laws to enhancing corporate governance practice. Most of the tools of the Corporate Governance Code in UAE companies exist in a group of regulations and laws, most importantly, the UAE Commercial Companies Law No. 8 (1984), the ES&CA, the Disclosure and Transparency Regulation No. 3 (2000), the UAE Code of Corporate Governance (ES&CA decision R/32 of 2007) and the ME published Ministerial Resolution No. 518 of 2009 Concerning Governance Rules and Corporate Discipline Standards and other systems and laws that relate to the Corporate Governance Code in a direct or indirect way. The results of this study found that the implementation of the Principles of Corporate Governance for emerging markets has been effective in the unique social, political and cultural context such as that of the UAE. However, although the findings showed that listed companies had improving levels of compliance with the UAE Code of Corporate Governance and that they had implemented the OECD Principles of Corporate Governance, there is still room for enhancement.

The findings show that implementation of corporate governance principles enhances firm performance. From a stakeholder's perspective, the findings also imply that the current developing corporate governance model seems to be appropriate for the UAE and that there may be a need for implementation in emerging markets in unique social, political and cultural contexts, such as the MENA region.

This thesis argues that some aspects of corporate governance principles require the listed companies to make improvements. Regulations protect the minority of shareholders' rights and should be given high priority in the company. The company should increase the level of voluntary disclosure: environmental and social disclosure. The company should be aware that all stakeholders' interests relevant to the business add value to the organisation. In UAE societies, where a viable coalition of stakeholders should be the primary objective of corporate governance, regulations encourage long-term orientation of management decisions and professionalism in their implementation.

Therefore, the laws and systems that relate to the company should be reviewed. A model of corporate governance developed in the UAE should include a model such as the one developed in this research. This model is in line with international systems and best practices of the corporate governance system, especially since many procedures are required to update the current UAE Code of Corporate Governance.

The results of the investigation based on agency theory of the relationship between corporate governance mechanisms and firm performance for the UAE suggest that some policies should be used to improve the accountability and transparency of managerial decision-making for shareholders and improve firm performance. The number of board members should be 7 to 9 members based on the findings of this research and the literature review, and not 3 to 12 members, as stated in the commercial law in the UAE. Non-executive directors should comprise at least 75% of the total number of directors, not simply a majority, as stated in the code, which does not identify a percentage. Independent directors should comprise at least 50% of the total number of directors, not one-third as confirmed in the code of the UAE. All audit committee members should be independent from the company; this is different from the requirements of the code, which states that at least two members should be independent. Listed companies should establish committees, such as risk management, and corporate governance committees.

The findings of the study can assist in an understanding of the needs, the possible barriers to compliance and the enablers of the implementation of good corporate governance in the UAE. The results indicated that the culture of the country could become an important potential problem with respect to the corporate governance code. Cultural differences between countries, industries and companies can explain a great deal of the diversity in corporate governance structures and processes in different countries. Hence, there is a need for greater awareness of the importance of such codes in sustaining business, in a nation and among the companies as well as the shareholders in the MENA region, in general, and, in particular, the UAE. This awareness can be brought about only by more strictly implementing laws and providing greater awareness to all. Furthermore, the corporate governance topic should be elevated and openly discussed in the UAE, and many conferences should set up on this topic, and academics, government representatives, policy makers, boards of directors of companies and investors should attend. Articles on this topic should be published in economics newspapers, journals and websites of stock markets and other organisations in the UAE, such as the ES&CA.

It is important to revise the code and regularly make it comprehensive to incorporate the emerging needs of the country and to accommodate the changes in the global corporate environment. For ensuring a successful implementation of the Corporate Governance Code, much emphasis should be placed on the capacity building capability of the ES&CA and other law enforcement agencies. Special attention should be paid to the following: training regulators and their workforce to understand corporate governance challenges, issues and values. Training must be on a continuous basis to keep abreast of the latest developments. The ES&CA should review legal and regulatory systems that govern companies' activities to align with, and follow the best practices of, the corporate governance requirements. The legal system and the enforcement of the laws are amongst the most important factors in developing the framework of corporate governance in the UAE.

The UAE government should support institutes of corporate governance, such as the Institute of Hawkamah for Corporate Governance and the ADCCG. These institutes should aim to train, raise the awareness of and educate CEOs, directors and board members. Conclusively, companies must qualify their directors with required training certification in accordance with the Institute of Hawkamah for Corporate Governance and the ADCCG. The programs could shape their integrity, create effective management and offer advice on how to enhance corporate governance quality in their own listed companies. In addition, the aims of these institutes should include efforts to overcome potential obstacles and enable corporate governance implementation, as identified in this study. These institutes should be more like independent bodies, including experts in management and corporate governance from the business and academic fields, the ADX and the DFM markets, shareholders and other stakeholders and government officials: the ES&CA, the Central Bank and the UAE Ministry of Economy. The need for a body of this kind was stressed by this study's findings and previous research.

This research also recommends that the UAE government review and develop the current accounting and auditing curriculum for the education system. Corporate governance and international accounting and auditing standards education programs should be established, and it should be ensured that the courses are updated regularly at universities in the UAE. The curriculum can be developed by the academics and professionals to identify the need; they can design the course and develop the infrastructure to produce qualified graduates. This approach will facilitate the introduction of corporate governance and the adoption of international accounting and auditing standards. In addition, the UAE government should develop the accounting and auditing profession in the UAE through the adoption of international accounting and auditing standards. These standards must be enforced by law and must be controlled by the UAE government.

The study also supports the policy agenda of the multilateral organisations, such as the World Bank, the International Monetary Fund and the OECD. These organisations have encouraged the MENA region countries, such the UAE, which have seen economic development, to improve overall corporate governance standards as a necessity and of considerable importance within the global economy. Therefore, the UAE government should continue to learn and benefit from the experiences of other countries in relation to corporate governance and practices in initiating regional corporate governance. The development partners emphasise the need to change the corporate laws and develop the capacity building of the regulatory agencies to improve firm-level corporate governance that, in turn, helps avoid any potential weakness in the financial system and enhances the capital market and corporate sector development.

The UAE government aims to effectively promote and positively contribute to the development of the national economy by introducing the highest standards and practices of corporate governance. Adequate resources should be provided to the regulatory and enforcement agencies, such as the ES&CA, to enable them carry out their duties effectively. Consequently, the ES&CA can monitor and evaluate the implementation of corporate governance practices and apply penalties for non-compliance to listed companies in the UAE. In addition, the UAE government should make a greater effort to encourage the development of corporate governance in the UAE business environment by participating in international events, conferences, meetings and committees that deal with corporate governance and by encouraging research on corporate governance in the UAE.

In an emerging market, good corporate governance practices are particularly important as they may not only help reduce corporate failures, but also may help companies attract significant capital inflows or foreign direct investments. These practices may facilitate faster economic growth and development in the UAE. In this respect, the study has the potential of attracting the attention of those concerned about corporate governance and who may be interested in using its findings to influence any future endeavour policies in guiding UAE corporate governance practices. By doing this, they can embed and integrate such guidance in corporate governance principles and governance structures.

Also, the regulatory authorities should work toward making these markets transparent and efficient, because these features improve the value of the shareholders and other stakeholders in the UAE. The implications for policy from this research are expected to help the policy makers and regulators identify areas of development in corporate governance that need immediate attention; also, plausible enablers have been suggested. The study suggests that the policy makers should learn in every possible way to develop an appropriate code of corporate governance that fits into the country's specific needs and the needs of the global environment.

10.5 Corporate Governance Model

The literature is organised on three major streams in chapter 2, 3 and 4 which are pertinent to the research study: the first being a comprehensive treatise on the relevant institutional (political and business) background of the region; the second a thorough review of the emergence of corporate governance in the western world, linked with a third stream which includes a critical consideration and justification of factors considered important to the research questions in this study. In view of the objectives of this study, it is important to develop an appropriate corporate governance model for the UAE that includes corporate governance principles that consider all stakeholders' interests. To enhance the effectiveness of corporate governance in the UAE, regulatory authorities in the UAE are encouraged to review the UAE's Codes of Corporate Governance that suit their cultural, economic and environmental needs. The current study provides new evidence from a developing country that significantly contributes to the existing literature on the developing model of corporate governance to enhance the quality of corporate governance practice.

Therefore, this research evaluated corporate governance in the UAE and developed a model based on the OECD Principles of Corporate Governance that apply to MENA countries, in general, and the UAE, in particular. This proposed model for the UAE could be simple, practical, easily implemented and enforceable; and the ES&CA, the Central Bank and the UAE Ministry of Economy, the ADX and the DFM markets should all participate in establishing this model. The model proposed by this research includes rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and responsibilities of the board. This model could be a monitor for good corporate governance in the UAE (see Table 10.1).

Table 10.1 Corporate Governance Model

Rights of shareholders: The corporate governance framework should protect and facilitate the exercise of shareholders' rights.
The company facilitates ownership transfer among shareholders.
The shareholders have the right to participate in company profits.
The shareholders have the right to regularly obtain information related to the company.
The shareholders have the right to vote in general meetings of the company.
The shareholders are able to vote in elections and remove members from the board of directors.
The company provides adequate and timely information about the company meetings to shareholders.
The shareholders have the right to discuss the external auditor's report at the Annual General Meeting of the company.
The company discloses details about the capital structure of the company to shareholders.
The company informs the shareholders of decisions concerning fundamental corporate changes.
Equitable treatment of shareholders: The corporate governance framework should ensure the equitable treatment of all shareholders including dominant, minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for any violation of their rights.
The company treats all shareholders who are from the same class equally.
The company provides information about the voting rights of shareholders before they purchase shares.
The processes and procedures for the general shareholder meetings allow for the equitable treatment of all shareholders.
The company protects minority shareholders from insider trading.
The company eliminates the impediments to cross-border voting.
The board members and key executives disclose material interests in any transaction or matter that directly affects the company.
Role of stakeholders in corporate governance: The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active cooperation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises.
The company respects stakeholder rights that are established by law.
The company permits the development of performance-enhancing mechanisms for employee participation.
The stakeholders have the opportunity to obtain effective redress for the violation of their rights.
The stakeholders have the right to obtain sufficient and reliable information on a timely basis.
The stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the board.
The company has an effective corporate governance framework that enforces creditor rights.
Disclosure and transparency: The corporate governance framework should ensure the timely and accurate disclosure of all material matters regarding the corporation, including its financial situation, performance, ownership and governance.

The company discloses information material, such as the financial and operating results of the company, the objectives of the company, the major share ownership, the foreseeable risk factors, the remuneration of board members and key executives and issues regarding employees and other stakeholders, such as programs for human resource development and training.
An annual audit of the company is conducted by an independent auditor.
The company prepares and discloses information in accordance with accounting standards and financial and non-financial disclosure.
The company provides channels for the dissemination of information to the relevant users on a timely basis.
Responsibilities of the board: The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board and the board's accountability to the company and the shareholders.
The board members acts in the best interests of the company and the shareholders.
The board takes stakeholders' interests into account.
The board monitors the effectiveness of the company's governance practices.
The board of directors elects, monitors and replaces executives when necessary.
The board monitors and manages potential conflicts of interest among management, board members and shareholders.
The board supervises the process of disclosure and communication.
The board members are provided with accurate and relevant information about the company.
The board reviews a strategic plan for the company.
The board members are able to devote sufficient time to their responsibilities.

10.6 Summary of the Contributions of the Study

This section discusses the contributions of this study in terms of its academic and practical implications.

10.6.1 Academic contribution

This study will help fill the large gap in the literature regarding corporate governance practices in the UAE. The main contribution of this study is the investigation of corporate governance in the UAE. Indeed, this investigation will not only contribute to knowledge in the UAE, and the Middle East as a whole, but also to other developing countries. A particular contribution is how the stakeholder models of corporate governance fit within the cultures of the MENA region. Therefore, it provides useful insights for academics regarding the need to implement good corporate governance.

This study has contributed to the theory by developing a corporate governance model that can fill the gap in the literature of corporate governance in the MENA region and particularly in the UAE. The model was based on the OECD Principles developed for the study. This model consists of five categories of corporate governance principles: rights of shareholders, equitable treatment of shareholders, role of stakeholders in corporate governance, disclosure and transparency, and responsibilities of the board. Corporate governance can be measured using the present corporate governance model for future corporate governance studies. Moreover, the model can assist with the monitoring of good corporate governance in MENA countries. This contribution is important for the field of corporate governance studies in MENA countries, particularly the UAE.

This study also contributes to knowledge by providing a general understanding of the current corporate governance principles and practices in businesses situated in the UAE. It provides an evaluation of the compliance of the listed companies with the corporate governance code in the UAE. Another important contribution of this study is that it is the first attempt to reveal the current obstacles and enablers that affect the implementation of corporate governance. This study is the first of its kind in the UAE, and it will provide useful insights for future research.

Next, the study's main objective was to identify the relationships between corporate governance and firm performance. This study provides a comprehensive investigation using two empirical models. First, it aims to investigate the relationship between corporate governance principles and firm performance. Second, it aims to investigate the role of corporate governance mechanisms in influencing firm performance in listed companies in developing countries, especially in the MENA region. Thus, the research methodology used for this study has made an important contribution to corporate governance research in MENA and the UAE in particular.

In terms of theory, the major contribution of this study has been the determination that the stakeholder theory was more applicable in the UAE due to the country's social, economic and environmental influences, which are applicable to MENA countries in general. In addition, this research is understood to be the first in developed or developing countries to employ the stakeholder theory to investigate the relationship between corporate governance principles and firm performance. The findings of the study confirm the stakeholder theory argument, which suggests that maintaining a good relationship between the management and stakeholders can positively influence firm performance in listed companies. According to Freeman (1984), companies should not only consider their shareholders, but also the interests of their stakeholders.

10.6.2 Practical contributions

The findings of this research make a significant contribution, as a corporate governance principle index has yet to be identified in the MENA region. This study has contributed practically by developing a CGI that is appropriate for MENA countries, and particularly the UAE. The index that was developed in this study provides a useful model that can be employed to facilitate the discussion of corporate governance in the UAE and other Arab countries. Further, the results provide a clear understanding of the issues with, and the current state of, corporate governance practices in the UAE for stakeholders, including policymakers, regulators, academics, the community, the ESCA, the Hawkamah Corporate Governance Institute, the IFC and the ABCCG, and it will be able to enhance the UAE Code of Corporate Governance for the listed companies, as the listed companies in the DFM and the ADX will benefit from the findings of this study.

This study is one of the very few studies that have been conducted to examine the corporate governance practices in MENA countries. Specifically, the value of this study comes from its focus on listed companies in the Emirates Stock Exchange, as it investigates the relationship between corporate governance and firm performance. In addition to being one of the few studies conducted in a developing country with a unique business environment, this research provides shareholders and other stakeholders with insight into how corporate governance influences firm performance. In general, this study provides practitioners with a clear view about the relationship between corporate governance principles, corporate governance mechanisms and firm performance in the UAE.

The findings of this study will be beneficial to other Middle Eastern countries and their policymakers, as there is a similar social, political and economic environment. This study aims to identify perceptions concerning the relationship between corporate governance and firm performance in the UAE.

10.7 Limitations of the Study

The findings of the study provide extensive evidence regarding corporate governance practices and their positive effect on firm performance; however, the researcher must note certain limitations of the study that should be taken into account when considering the conclusions that can be drawn. First, the respondents employed in this study do not represent the broad population of companies in the UAE because the Code of Corporate Governance, which was introduced by the UAE government, includes only the listed companies in the ADX and DFM. As a result, this study did not investigate corporate governance in non-listed companies in the UAE.

Second, this study investigated the perceptions of those from the five stakeholder categories regarding the practice of corporate governance in listed companies in the UAE. These five stakeholder categories are as follows: board members, managers, audit committee members, internal auditors and accountants. Other stakeholder categories, such as shareholders, investors, academics, external auditors, the government and the public, are not covered in this study.

This study only focused on the board of directors (board size, leadership structure and board composition) and audit committee independence. This study was limited to two financial performance indicators (ROA and ROE), one measure of the market, and Tobin’s Q to determine company performance. This research investigates the relationship between corporate governance and firm performance for a limited period of two years, with 2010 and 2011 being the mandatory periods in which the listed companies in the ADX and DFM had to comply with the Code of Corporate Governance initiated in 2010.

10.8 Areas for Further Research

This study makes a considerable contribution to the exploration of corporate governance practices in the UAE and the role of corporate governance in influencing firm performance in listed companies. However, a significant amount of empirical research has not been covered by this study, which may be useful for further study of the UAE and other developing countries. Thus, there are numerous ways in which the research study as a whole can be extended.

One possible avenue for future research is to examine external stakeholders’ perceptions concerning corporate governance practices in developing countries such as the UAE and the MENA region in general. These stakeholders include shareholders, investors, external auditors, academics and the public in developing countries. In addition, this study was focused on listed companies in the ADX and DFM, but it is also important to understand the current corporate governance practice in non-listed companies in the

UAE. Therefore, another focus for future research could be a comparison of the corporate governance practices of listed and non-listed companies in the UAE.

This study was undertaken from 2010 to 2011, and it is likely that the adoption of best practices has increased since 2010 with the introduction of the Code of Corporate Governance in 2009. Future research could examine corporate governance practices and firm performance by exploring a longer period in order to provide an in-depth understanding of the relationship between corporate governance practices and firm performance. Moreover, it is recommended that future studies specifically investigate the board meeting, board committee, CEO performance, CEO skills, tenure of the CEO, executive remuneration and incentives for management, staff tenure, and staff qualifications, as these can be used as corporate governance mechanisms to test their relationship with firm performance in listed companies.

It is important to understand the effect of corporate governance practices on other financial and market performance measures of firms, giving special attention to the return on sales, profits and shares per earning. Future research can also examine the relationships between corporate governance and economic, social and environmental performance in the UAE context. Further, the corporate social responsibility of companies could be examined, as this area has not been investigated in this study as a performance determinant due to the lack of secondary data.

Finally, the model of corporate governance developed in this study is likely to be appropriate for implementation in the MENA region. Consequently, the investigation of the study topic might be extended to MENA and other developing countries with similar characteristics to those of the UAE in order to provide more evidence of corporate governance practice and firm performance across economies.

10.9 Conclusion

This study has been able to achieve its main objective. It has also been able to answer all of the research questions. More specifically, the study has comprehensively investigated corporate governance practices in the UAE. It has also identified the possible barriers to, and enablers of, the implementation of good corporate governance. Essentially, this study has used two empirical models to examine the relationship between corporate governance principles, corporate governance mechanisms and firm performance in the UAE, as depicted in Chapter 5. In addition, the data collection technique, method of analysis and development of a new corporate governance model are new in the area of corporate governance in MENA countries, and particularly the UAE.

The findings of this study are in agreement with the literature identified from different developing countries. There has been an implementation of corporate governance principles and mechanisms in the UAE. The stakeholder theory has proven to be a useful framework that can be applied to corporate governance research in general, particularly with regard to developing countries such as the UAE. The results of the regression analysis also indicate the effect of corporate governance on firm performance. This study supports the argument that there is a positive relationship between corporate governance and firm performance in UAE listed companies. Overall, the two empirical models have been very useful in achieving the objectives of this study.

Few studies have investigated corporate governance practices in the MENA region and developing countries. Consequently, this study will add to the literature on corporate governance practices from the perspective of an emerging economy, and it will also contribute to the development of corporate governance in the UAE, with policy implications for the code of best practices in corporate governance and the new model, particularly with regard to considering stakeholders' interests. It is hoped that future researchers will be able to further explore the issues highlighted by this study, implement the developing model of corporate governance and extend the avenues that this study has opened up. The above discussion on the limitations of this study and the possibilities for future research conclude this thesis.

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Appendix 1 Corporate Governance Index

No	Items	1	2	3	4	5
A	**Rights of shareholders sub-index**					
1	The company facilitates ownership transfer among shareholders.					
2	The shareholders have the right to participate in company profits.					
3	The shareholders have the right to regularly obtain information related to the company.					
4	The shareholders have the right to vote in general meetings of the company.					
5	The shareholders are able to vote in elections and remove members from the board of directors.					
6	The company provides adequate and timely information about the company meetings to shareholders.					
7	The shareholders have the right to discuss the external auditor’s report at the Annual General Meeting of the company.					
8	The company discloses details about the capital structure of the company to shareholders.					
9	The company informs the shareholders of decisions concerning fundamental corporate changes.					
B	**Equitable treatment of shareholders sub-index**					
10	The company treats all shareholders who are from the same class equally.					
11	The company provides information about the voting rights of shareholders before they purchase shares.					
12	The processes and procedures for the general shareholder meetings allow for the equitable treatment of all shareholders.					
13	The company protects minority shareholders from insider trading.					
14	The company eliminates the impediments to cross-border voting.					
15	The board members and key executives are to disclose material interests in any transaction or matter that directly affects the company.					
C	**The role of stakeholders in corporate governance sub-index**					
16	The company respects stakeholder rights that are established by law.					
17	The company permits the development of performance-enhancing mechanisms for employee participation.					
18	The stakeholders have the opportunity to obtain effective redress for the violation of their rights.					
19	The stakeholders have the right to obtain sufficient and reliable information on a timely basis.					
20	The stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the board.					
21	The company has an effective corporate governance framework that enforces creditor rights.					

D	**Disclosure and transparency sub-index**					
22	The financial and operating results of the company are disclosed.					
23	The objectives of the company are disclosed.					
24	Major share ownership is disclosed.					
25	Foreseeable risk factors are disclosed.					
26	Remuneration of board members and key executives is disclosed.					
27	Issues regarding employees and other stakeholders, such as programs for human resource development and training, are disclosed.					
28	An annual audit of the company is conducted by an independent auditor.					
29	The company prepares and discloses information in accordance with accounting standards and financial and non-financial disclosure.					
30	The company provides channels for the dissemination of information to the relevant users on a timely basis.					
E	**The responsibilities of the board sub-index**					
31	The board members act in the best interests of the company and the shareholders.					
32	The board takes stakeholders' interests into account.					
33	The board monitors the effectiveness of the company's governance practices.					
34	The board of directors elects, monitors and replaces executives when necessary.					
35	The board monitors and manages potential conflicts of interest among management, board members and shareholders.					
36	The board supervises the process of disclosure and communication.					
37	The board members are provided with accurate and relevant information about the company.					
38	The board reviews a strategic plan for the company.					
39	The board members are able to devote sufficient time to their responsibilities.					
Corporate governance index						

Appendix 2 Reliability Analysis Test

Reliability analysis of questionnaire			
No	**Statements**	**Number of items**	**Coefficient alpha value**
1	Concept of corporate governance	12	0.770
2	Corporate governance principles	39	0.935
3	Obstacles affecting the implementation of the corporate governance	12	0.918
4	Enablers affecting the implementation of the corporate governance	10	0.857
Total reliability analysis of questionnaire		73	0.924
Reliability analysis of corporate governance index			
No	**Statements**	**Number of items**	**Coefficient alpha value**
1	**Corporate governance index**	**5**	**0.844**

Appendix 3 Heteroscedasticity Test

Breusch–Pagan/Cook–Weisberg tests for heteroscedasticity			
No	**Statement**	**Breusch–Pagan/Cook–Weisberg tests**	
		Chi-square	**Prob>chi2**
1	First model (ROA, ROE and Tobin's Q)	1.34, 12.51 and 1	0.2478, 0.0004 and 0.3179
2	Second model (ROA, ROE and Tobin's Q)	0.45, 0.19 and 14.36	0.5023, 0.6610 and 0.0002
White's tests for Heteroscedasticity			
No	**Statement**	**White's tests**	
		Chi-square	**Prob>chi2**
1	First model (ROA, ROE and Tobin's Q)	18.86, 19.78 and 17.31	0.0264, 0.0193 and 0.0441
2	Second model (ROA, ROE and Tobin's Q)	51.53, 51.43 and 50.76	0.0021, 0.0021 and 0.0025

Appendix 4 Hausman Test

No	Statement	Hausman test results for the second model		
1	Test of second model	ROA	ROE	Tobin’s Q
2	Husman test (Prob>chi2)	0.0563	0.1520	0.8403

Appendix 5 Questionnaire

Dear Sir/Madam,

I am a doctorate student at Victoria University and this questionnaire is part of the requirements for obtaining a degree obtaining a PhD degree in Accounting at Victoria University, Australia. This study is entitled 'Corporate Governance Practice and Firm Performance of Listed Companies in the United Arab Emirates'. The aim of this research is to investigate and explore the perceptions concerning corporate governance practice in listed companies and its effect on firm performance from a theoretical and practical perspective.

The questionnaire should take approximately 15 minutes to complete. Would you kindly complete this questionnaire? Any information you provide will be analysed and used purely for academic purposes. In addition, your entire response will be anonymous and confidential.

Thank you very much in advance for your assistance and cooperation, and I am looking forward to receiving your response.

Kind regards.

Yours sincerely,

Khaled Otman

PhD Student
Accounting and Finance Department
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Part 1: The concept of corporate governance

Q1. The following is a list of possible definitions of corporate governance. Using the scale below, please identify the extent to which you agree or disagree about how appropriate you think each definition is in the UAE environment.

Statements	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
Q1a. Corporate governance refers to an organisation's relationship with its shareholders to ensure that it acts in accordance with the interests of those shareholders.					
Q1b. Corporate governance refers to an organisation's relationship with all stakeholders who are affected by or affect the organisation's operations and decisions.					
Q1c. Corporate governance refers to an organisation's relationship with all members of society, irrespective of whether they affect or are affected by the organisation's operations and decisions.					

Q2. Please indicate how important you think corporate governance is to each of the following groups.

Statements	Strongly insignificant	Insignificant	Uncertain	Significant	Strongly significant
Q2a. Shareholders					
Q2b. Investors					
Q2c. Managers/CEOs					
Q2d. Employees					
Q2e. Creditors (banks, suppliers, others)					
Q2f. Government					
Q2g. Customers					
Q2h. Auditors					
Q2i. Local community					
Q2j. Other, please state					

Part 2: The principles of corporate governance

Q3. The following is a list of items relating to the principles of corporate governance. Please state the extent to which you agree/disagree with the following items as they exist in your company.

Q3a. The rights of shareholders	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
1. Ownership transfer among shareholders is facilitated.					
2. Shareholders have the right to participate in company profits.					
3. Shareholders have the right to obtain information related to the company regularly.					
4. Shareholders have the right to vote in general meetings.					
5. Shareholders are able to vote in elections and remove members of the board of directors.					

6. Shareholders are provided with adequate and timely information about company meetings.					
7. Shareholders have the right to discuss the external auditor’s report at the Annual General Meeting.					
8. Details about the capital structure of your company are disclosed to shareholders.					
9. Shareholders have the right to be informed on decisions concerning fundamental corporate changes.					
Q3b. Equitable treatment of shareholders	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
1. All shareholders who are from the same class are treated equally.					
2. Shareholders have the right to obtain information about voting rights before they purchase shares.					
3. Processes and procedures for general shareholder meetings allow for equitable treatment of all shareholders.					
4. Minority shareholders are protected from insider trading.					
5. There are means to remove the obstacles of cross-border voting.					
6. Board members and key executives disclose material interests in any transaction or matter directly affecting the company.					
Q3c. The role of stakeholders in corporate governance	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
1. Stakeholder rights that are established by law are respected by the company.					
2. Performance-enhancing mechanisms for employee participation are permitted to develop.					
3. Stakeholders have the opportunity to obtain effective redress for violation of their rights.					
4. Stakeholders have the right to obtain sufficient and reliable information on a timely basis.					
5. Stakeholders have the right to freely communicate their concerns about illegal or unethical practices to the board.					
6. An effective corporate governance framework enforces creditor rights.					
Q3d. Disclosure and transparency	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
1. The financial and operating results of the company are disclosed.					
2. The objectives of the company are disclosed.					
3. Major share ownership is disclosed.					
4. Foreseeable risk factors are disclosed.					
5. Remuneration of board members and key executives is disclosed.					
6. Issues regarding employees and other stakeholders, such as programs for human resource development and training, are disclosed.					
7. An annual audit of the company is conducted by an independent auditor.					
8. Information is prepared and disclosed in accordance with International Accounting Standards.					
9. Channels for the dissemination of information on a timely basis to relevant users are provided.					

Q3e. The responsibility of board directors	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
1. Board members act in the best interests of the company and the shareholders.					
2. The board takes stakeholders' interests into account.					
3. The board monitors the effectiveness of the company's governance practices.					
4. The board of directors elects, monitors and replaces executives when necessary.					
5. The board monitors and manages potential conflicts of interest of management, board members and shareholders.					
6. The board supervises the process of disclosure and communication.					
7. Board members are provided with accurate relevant information about the company.					
8. The board has approved a strategic plan for the company.					
9. Board members are able to devote sufficient time to their responsibilities.					

Part 3: **Obstacles that affect corporate governance**

Q4. Please indicate the extent of your agreement as to whether the following possible obstacles affect the practice of corporate governance in the UAE.

Obstacles	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
Q4a. Weak legal controls and law enforcement					
Q4b. cultur of UAE the community					
Q4c. Weak accounting and auditing profession					
Q4d. Poor-quality accounting and finance education					
Q4e. Weak infrastructures of financial institutions					
Q4f. Lack of legal and regulatory systems that govern companies' activities					
Q4g. Government interference in business activities					
Q4h. The state of the UAE economy					
Q4i. The costs of practising good corporate governance outweigh the benefits					
Q4j. Poor financial and non-financial disclosure					
Q4k. Good relationship between the company and the external auditors					

Part 4: Enablers that improve corporate governance

Q5. Please indicate the extent of your agreement as to whether the following possible enablers improve the practice of corporate governance in the UAE.

Enablers	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
Q5a. Ensuring wide adoption of international accounting and auditing standards					
Q5b. Using training and other means of support					
Q5c. Developing incentive programs for compliance with principles of corporate governance					
Q5d. Establishing corporate governance education programs at universities					
Q5e. Establishing an institute of directors for training, raising awareness and education for CEOs, directors and board members					
Q5f. Enhancing professional accounting and auditing bodies					
Q5g. Participating in international events, conferences, meetings and committees dealing with corporate governance					
Q5h. Encouraging research into corporate governance in the UAE					
Q5l. Learning from the experiences of other countries concerning corporate governance practice					
Q5i. Initiating regional corporate governance partnership programs with international organisations such as the OECD					

Part 6: Demographic information: Please place a tick in the appropriate box in each of these questions

Q6. Age group

30 years or less	31–40 years	41–50 years	51–60 years	More than 60 years

Q7. Your position

Senior manager or CEO	Board member	Audit committee member	Accountant	Internal auditor

Q8. Highest level of qualification

PhD	Master	Bachelor	Diploma	Other, please state

Q9. Major of your last educational qualification

Accounting	Finance	Management	Economics	Other (please specify)

Q10. Experience in this job

Less than 5 years	5–10 years	11–15	16–20	More than 20

Thank you once again for your co-operation in completing this questionnaire. Your efforts are deeply appreciated. If you have any comments, please state them in the space provided below.

Thank you very much for your interest

الاخ / الاخت الكرام

تحية طيبة وبعد........

اود ان احيط سعادتكم بانى أحد طلاب الدكتوراه بجامعة فكتوريا وهذا الاستبيان يكون جزء من متطلبات الحصول على درجة الدكتوراه فى المحاسبة من جامعة فكتوريا. عنوان هذه الدراسة " تقييم ممارسة حوكمة الشركات وتاثيرها على اداء الشركات المدرجة فى دولة الامارات " الهدف الرئيسى من هذا البحث هو دراسة واظهارالتصورات فيما يتعلق بممارسة حوكمة الشركات فى الشركات المدرجة وتاثيرها على اداء الشركات من منظور النظرية والتطبيق.

اجابة الاستبيان لاتتجاوز 15 دقيقة، عليه نامل منكم التكرم بالاجابة على هذا الاستبيان مع التاكيد على ان المعلومات المقدمة سوف لن تستخدم الا لاغراض البحث العلمى، وكذلك كل الاجابات سوف تعامل بكل سريه.

شكرا لكم مقدما لمساعدتكم وتعاونكم، وكلى امل فى استلام ردودكم فى اسرع وقت

مع وافر الاحترام والتقدير،،، ،

الباحث

خالد عثمان

قسم المحاسبة والتمويل جامعة فيكتوريا

Khaled.otman@live.vu.edu.au

الجزء الأول: مفهوم حوكمة الشركات

س1- وفيما يلي قائمة من التعريفات الممكنة لحوكمة الشركات. باستخدام المقياس أدناه، يرجى تحديد الى اى مدى توافق او لا توافق حول ملائمة كل تعريف لبيئة دولة الامارات

البيان	غير موافق بشدة	غير موافق	محايد	موافق	موافق بشدة
1- حوكمة الشركات تشير إلى علاقة المنظمة مع مساهميها للتأكد من أنها تعمل على تحقيق مصالحهم					
2- حوكمة الشركات تشير إلى علاقة المنظمة مع كل أصحاب المصالح الذين يتأثرون ويؤثرون على قرارات ونشاطات الشركة					
3- حوكمة الشركات تشير إلى علاقة المنظمة مع كل افراد المجتمع بصرف النظر عن مدى أو فعالية تأثرهم أو تأثيرهم على قرارات ونشاطات الشركة					

س2- الرجاء تحديد أهمية نظام حوكمة الشركات للمجموعات التالية (اصحاب المصالح)

البيان	غير مهم على الاطلاق	غير مهم	محايد	مهم	مهم جدا
1- المساهمين					
2- المستثمرين					
3- المدراء					
4- العمال					
5- الدائنين (البنوك- الممولين- أخرى)					
6- الحكومة					
7- الزبائن					
8- المراجعين					
9- المجتمع					
10- أخرى ----------------------------------					

الجزء الثاني: معايير حوكمة الشركات

س3-وفيما يلي قائمة من البنود المتعلقة بمعايير حوكمة الشركات. يرجى تحديد إلى أي مدى موافق أو غير موافق مع البنود التالية على انها موجودة في الشركة

ا- **حقوق المساهمين**	غير موافق بشدة	غير موافق	محايد	موافق	موافق بشدة
1- تسهيل نقل الملكية بين المساهمين					
2- للمساهمين الحق في المشاركة في أرباح الشركة					
3- للمساهمين الحق في الحصول على المعلومات المتعلقة بالشركة بشكل دوري					
4- للمساهمين الحق في التصويت في اجتماعات الجمعية العمومية					
5-المساهمين يكونوا قادرين على انتخاب وعزل أعضاء مجلس الإدارة					
6- توفير معلومات كافية وفى الوقت المناسب للمساهمين عن اجتماعات الشركة					
7- للمساهمين الحق في مناقشة تقرير المراجعة الخارجية خلال جلسات الجمعية العمومية					
8- يتم الإفصاح عن تفاصيل هيكل رأس المال الشركة للمساهمين					
9- للمساهمين الحق في الاطلاع على القرارات المتعلقة بالتغيرات الأساسية للشركة					
ب- المعاملة المتساوية للمساهمين	غير موافق بشدة	غير موافق	محايد	موافق	موافق بشدة
1- يتم معاملة جميع المساهمين من نفس الفئة بالتساوي					
2- للمساهمين الحق في الحصول على معلومات حول حقوق التصويت قبل شراء الاسهم					
3- تسمح الإجرءاءت المتبعة لعقد اجتماعات الجمعية العامة من تحقيق المساواة لكل المساهمين					
4- يتم حماية حقوق الأقلية من المساهمين من الاتجار أو التداول لحساب المطلعين على المعلومات الداخلية					
5- هناك وسائل لإزالة المعوقات الخاصة بالتصويت عبر الحدود من خارج الدولة					
6- يقوم أعضاء مجلس الإدارة والمديرين بالإفصاح عن مصالحهم في أي معاملة أو مسألة تؤثر بشكل مباشر على الشركة					
ت- دور أصحاب المصالح في تطبيق حوكمة الشركات	غير موافق بشدة	غير موافق	محايد	موافق	موافق بشدة
1- يتم احترام حقوق أصحاب المصالح من قبل الشركات وفق القانون					
2- يتم السماح لتطويراداء آليات تعزيز مشاركة العاملين					
3-أصحاب المصالح لديهم فرصة للحصول على تعويض مناسب عند إنتهاك حقوقهم					
4-أصحاب المصالح لديهم الحق في الحصول على معلومات كافية وموثوق فيها					

فى الوقت المناسب					
5-أصحاب المصالح لديهم الحق بحرية الإتصال بمجلس الإدارة للتعبير عن مخاوفهم اتجاه الممارسات غير القانونية او الاخلاقية					
6- إطار حوكمة شركات فعال يطبق حقوق الدائنين					
ث- الإفصاح والشفافية	غير موافق بشدة	غير موافق	محايد	موافق	موافق بشدة
1- يتم الإفصاح عن النتائج المالية والتشغيلية للشركة					
2- يتم الإفصاح عن أهداف الشركة					
3- يتم الإفصاح عن أغلبية ملكية الأسهم					
4- يتم الإفصاح عن عناصر المخاطرة					
5- يتم الإفصاح عن مكافآت مجلس الإدارة والمديرين التنفيذيين					
6- يتم الإفصاح عن القضايا المتعلقة بالموظفين وأصحاب المصالح الأخرى مثل برامج تنمية الموارد البشرية والتدريب					
7- يتم مراجعة الشركة سنويا من قبل مراجع خارجي مستقل					
8- يتم الإعداد والإفصاح عن البيانات وفقا لمعايير المحاسبة الدولية					
9- يتم توفير قنوات لنشر المعلومات في الوقت المناسب ذات الصلة إلى مستخدمين المعلومات					
ح - مسئولية مجلس الإدارة	غير موافق بشدة	غير موافق	محايد	موافق	موافق بشدة
1- يعمل أعضاء مجلس الإدارة على مراعاة افضل لمصالح الشركة والمساهمين					
2- ياخذ المجلس في الاعتبار مصلحة أصحاب المصالح					
3-يقوم مجلس الإدارة بمراقبة فعالية ممارسة الحوكمة في الشركة					
4-يقوم مجلس الإدارة باختيار ومراقبة واستبدال المديرين عند الضرورة					
5- يقوم المجلس بمتابعة ومعالجة اى تعارض للمصالح بين المديرين وأعضاء مجلس الإدارة والمساهمين					
6- يشرف مجلس الإدارة على عملية الإفصاح والاتصالات					
7-يتحصل مجلس الإدارة على المعلومات المناسبة ذات الصلة بالشركة					
8- مجلس الادارة وافق على خطة استراتيجية للشركة					
9- أعضاء مجلس الإدارة يكونوا قادرين على تكريس الوقت الكافي لمسؤولياتهم					

الجزء الثالث: العقبات التي يمكن ان تؤثر في تطبيق حوكمة الشركات

س4- الرجاء توضيح مدى موافقتك حول ما إذا كانت مجموعة هذه العقبات تؤثر على ممارسة حوكمة الشركات في دولة الامارات

البيان	غير موافق بشدة	غير موافق	محايد	موافق	موافق بشدة
1- ضعف الضوابط القانونية وتطبيق القانون					
2- ثقافة المجتمع					
3- ضعف مهنة المحاسبة والمراجعة					
4- قصور في جودة التعليم المحاسبي والمالي					
5- ضعف البنية التحتية للمؤسسات المالية					
6- وجود قصور فى النظام القانوني والتنظيمي الذي يحكم نشاط الشركات					
7- تدخل الدولة في الأنشطة الإقتصادية					
8- حالة الاقتصاد فى الدولة					
9- تكلفة تطبيق الحوكمة تزيد عن منافعها					
10- وجود قصور في الإفصاح المالي وغير المالي					
11- وجود علاقة جيدة بين الشركة والمراجع الخارجي					

الجزء الرابع: العوامل المساعدة التي يمكن ان تحسن حوكمة الشركات

س5- الرجاء بيان مدى موافقتك حول ماذا كانت العوامل المساعدة التالية تحسن ممارسة حوكمة الشركات في دولة الامارات

البيان	غير موافق بشدة	غير موافق	محايد	موافق	موافق بشدة
1- ضمان تبنى تطبيق معايير المحاسبة والمراجعة الدولية					
2- إستخدام التدريب والوسائل المساعدة					
3- تطوير برامج الحوافز للشركات المطبقة لمعايير حوكمة الشركات					
4- إنشاء برنامج تعليمى عن حوكمة الشركات في الجامعات					
5- إنشاء معهد الإدارة لتدريب المديرين والرؤساء التنفيذيين وأعضاء مجالس الإدارة					
6- تطوير مهنة المراجعة والمحاسبة					
7- المشاركة في المناسبات الدولية والمؤتمرات والإجتماعات واللجان المتعلقة بحوكمة الشركات					
8- تشجيع البحوث في مجال حوكمة الشركات فى الدولة					

9- الإستفادة من تجارب الدول الاخرى في مجال حوكمة الشركات					
10- البدء في برامج التعاون مع المنظمات الدولية في مجال حوكمة الشركات مثل منظمة التعاون الاقتصادى والتنمية					

الجزء الخامس: معلومات عامة: الرجاء وضع علامة صح فى المكان المناسب لكل من هذه الاسئلة

س6- العمر

30 سنة أو اقل	من 31 إلى 40 سنة	من 41 إلى 50 سنة	من 51 إلى 60 سن	أكثر من 60 سنة

س7-الوظيفة

مدير عام أو رئيس تنفيذي	عضو مجلس إدارة	عضو لجنة المراجعة	محاسب	مراجع داخلي

س8- المؤهل العلمي

دكتوراه	ماجستير	بكالوريوس	دبلوم	أخرى تذكر

س9- التخصص

المحاسبة	التمويل	الادارة	الاقتصاد	اخرى الرجاء تحددها-------------------------

س10- خبرتك فى هذه الوظيفة

اقل من 5 سنوات	5-10 سنوات	11-15 سنوات	16-20 سنوات	اكثر من 20 سنة

ختاما أشكركم مرة أخرى لتعاونكم في ملء هذا الاستبيان والرجاء التكرم بكتابة أي تعليق أو ملاحظة تعتقد أنها تخدم البحث في هذه الصفحة

شكرا جزيلا على اهتمامكم

Appendix 6 Information and Consent Form for Participants

VICTORIA UNIVERSITY
MELBOURNE AUSTRALIA

INFORMATION TO PARTICIPANTS

INVOLVED IN RESEARCH

You are invited to participate

You are invited to participate in a research project entitled Corporate Governance Practice and Firm Performance of Listed Companies in the United Arab Emirates (UAE). This project is being conducted by a student researcher, Khaled Otman, as part of a PhD study at Victoria University under the supervision of Prof. Colin Clark and Prof. Anona Armstrong from the Faculty of Business and Law at Victoria University.

Project explanation

The main aim of this research is to understand the perceptions concerning corporate governance practice in developing countries and the effect of corporate governance on firm performance. The general area of research is governance, and the specific focus is corporate governance practice and its impact on firm performance in a developing country, namely the UAE. The aim of the research is to improve governance in the UAE.

What will I be asked to do?

You are invited to participate in this research process by answering the questionnaire. You will be invited to answer structured questions asked by the researcher. The questionnaire will take about 15 minutes.

What will I gain from participating?

Your contribution is appreciated and this support will benefit this research. The findings of this research will provide a significant contribution to understanding the issues and the current state of corporate governance practice in the UAE for the many stakeholders: the policy makers; regulators; academics; and listed companies in the Dubai financial market (DFM) and the Abu Dhabi Securities Exchange (ADX). This research will enhance the UAE Code of Corporate Governance for listed companies by developing a model.

How will the information I give be used?

Any information you provide will be analysed with other information and used purely for academic purposes. In addition, your responses will be handled anonymously and confidentially. Your identity will not be revealed in the thesis or anywhere else.

What are the potential risks of participating in this project?

The topic elevated in this research project is openly discussed in the UAE and only general information will be required in the field study. Therefore, the participants can fill the questionnaire without any expected risk.

How will this project be conducted?

The information will be used in the PhD thesis and it also will be used in developing publications for academic journals. However, this information will be only accessed by supervisors and the research student. So, it will be confidential and stored in a safe place.

Who is conducting the study?

The study is being conducted through the School of Accounting and Finance in the Faculty of Business and Law, Victoria University, Melbourne, Australia.

Chief Investigator: Prof. Colin Clark. Phone: Phone 0061399191565. Email: colin.clark@vu.edu.au
Associate Investigator: Prof. Anona Armstrong. Phone: 0061399191840. Email: anona.armstrong@vu.edu.au

Student research: Khaled Otman. Phone: 0061412866494. Email: khaled.otman@live.vu.edu.au

If you have any queries or complaints about the way you have been treated, you may contact the Research Ethics and Biosafety Manager, Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, Vic, 8001 or phone (03) 9919 4148.

CONSENT FORM FOR PARTICIPANTS

INVOLVED IN RESEARCH

INFORMATION TO PARTICIPANTS:

We would like to invite you to be a part of a research project conducted by the student researcher, Khaled Otman, who is a student in the Faculty of Business and Law at Victoria University, Australia, as a part of a PhD study. The aim of this research project is to understand the perceptions concerning corporate governance practice in developing countries and the effect of corporate governance on firm performance. Data collection in this research project is based on a survey questionnaire with senior managers, members of boards, audit committees members, the accountant and the internal auditor in listed companies in the UAE. There are no expected risks.

CERTIFICATION BY SUBJECT

I, ..., (please write your name), from................................(country) certify that I am at least 18 years old* and that I am voluntarily giving my consent to participate in the study: Corporate Governance Practice and Firm Performance of Listed Companies in the United Arab Emirates being conducted at Victoria University by: Prof. Colin Clark and Prof. Anona Armstrong, Faculty of Business and Law, Victoria University, Melbourne, Australia.

I certify that the objectives of the study, together with any risks and safeguards associated with the procedures listed hereunder to be carried out in the research, have been fully explained to me by Khaled Otman and that I freely consent to participation involving the below mentioned procedures:

- Survey questionnaire

I certify that I have had the opportunity to have any questions answered and that I understand that I can withdraw from this study at any time and that this withdrawal will not jeopardise me in any way.

I have been informed that the information I provide will be kept confidential.

Signed: Date:

Any queries about your participation in this project may be directed to the researcher:

Professor Colin Clark. Phone: +613 9919 1565

If you have any queries or complaints about the way you have been treated, you may contact the Research Ethics and Biosafety Manager, Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, Vic, 8001 or phone (03) 9919 4148.

استمارة الموافقة للمشاركين

فى البحث

معلومات للمشاركين

نود ان ندعوك لتكون جزء من مشروع البحث يجرى من قبل الطالب خالد عثمان وهو طالب فى كلية الادارة والقانون جامعة فكتوريا فى استراليا كجزء من دراسة الدكتوراة. هدف هذا البحث يكون لفهم تصورات ممارسة حوكمة الشركات فى الدول النامية وتاثير الحوكمة على اداء الشركات. جمع البيانات فى هذه الدراسة يستند على استبيان مع المدراء, اعضاء مجالس الادارة, رؤوساء لجان المراجعة , المحاسبين, المراجعيين الداخليينفى الشركات المدرجة فى الامارات العربية المتحدة. ليست هناك اى مخاطر متوقعة

شهادة بالموضوع

انا--------------------------(الرجاء كتابة الاسم) من--------------------(البلد)

اشهد اننى لايقل عمرى عن 18 سنة واننى اكون متطوع لاعطى موافقتى للمشاركة فى الدراسة: حوكمة الشركات واداء الشركات فى ادولة الامارات العربية المتحدة التى تجرى حاليا فى جامعة فكتوريا من قبل البرفسور كولن كلارك والبرفسور انونة ارمسترونق والطالب خالد عثمان ,كلية الادارة والقانون جامعة فكتوريا , مالبورن , استراليا.

واشهد ان اهداف هذه الدراسة مع بعضها مع اية مخاطر والضمانات المرتبطة بالاجراءات المذكورة ادناه التى سوف تجرى فى هذا البحث شرحت لى بشكل مفصل من قبل الطالب خالد عثمان واننى اوافق بكامل حريتى فى المشاركة فى الاجراءات المذكورة ادناه

صحيفة استبيان

اشهد اننى قد اعطيت الفرصة لاى اسئلة واجابات. انا افهم انى استطيع ان انسحب من هذه الدراسة فى اى وقت وهذا الانسحاب لايشكل اى خطر على

وقد ابلغت بان المعلومات سوف تكون بسرية تامة

التوقيع التاريخ

اى استفسارات حول مشاركتك فى هذا البحث يمكنك الاتصال بالباحث البرفسور كولن كلارك تليفون: 0061399191565

اذا كان لديك اى استفسارات او شكاوى حول الطريقة الت تم التعامل بها معك. يمكنك الاتصال بمدير السلامة واخلاقيات البحوث. لجنة الاخلاق والبحوث البشرية, جامعة فكتوريا, صندوق بريد ,14428, مالبورن, فكتوريا, 8001 او تليفون 0061399194148

معلومات للمشاركين فى البحث

انت تكون مدعو للمشاركة

انت تكون مدعو للمشاركة فى مشروع بحث بعنوان ممارسة حوكمة الشركات واداء الشركات المدرجة فى الامارات العربية المتحدة. هذا المشروع يجرى من قبل الطالب خالد عثمان كجزء من دراسة درجة الدكتوراة فى جامعة فكتوريا تحت اشراف البرفسور كولن كلارك والبرفسور انونة ارمسترونق من كلية الادارة والقانون فى جامعة فكتوريا.

شرح المشروع

اهم هدف فى هذا البحث يكون لفهم التصورات حول ممارسة حوكمة الشركات فى البلدان النامية. واثر الحوكمة على اداء الشركات. الجزء العام للبحث يكون الحوكمة والتركيز بشكل خاص على ممارسة حوكمة الشركات وتاثيرها على اداء الشركات فى احد البلدان النامية وهى دولة الامارات العربية المتحدة. الهدف من البحث هو تحسين الحوكمة فى الامارات.

ماذا سوف يطلب منى لافعله

انت تكون مدعو للمشاركة فى هذه العملية البحثية من خلال الاجابة على الاستبيان. انت سوف يطلب منك الاجابة على اسئلة من قبل الباحث. الاستبيان سوف ياخذ حوالى 15 دقيقة

ماذا سوف اضيف بالمشاركة

مساهمتك لها تقدير خاص وهذا الدعم يستطيع يعطى فائدة كبيرة للبحث. نتائج هذا البحث سوف توفر مساهمة كبيرة لفهم القضايا والوضع الحالى لممارسة حوكمة الشركات فى دولة الامارات لكثير من اصحاب المصالح مثل صناع السياسات؛ الاكاديميين الشركات المدرجة فى سوق دبلى وابوظبى للاوراق المالية. هذا البحث يعزز قواعد حوكمة الشركات فى دولة الامارات العربية من خلال تطوير نموذج مناسب لهذه الدولة.

كيف سيتم استخدام المعلومات التى قدمتها

اى معلومات تقدمها سوف يتم تحليلها مع غيرها من المعلومات واستخدامها فقط للاغراض الاكاديمية. بالاضافة الى ذلك سيتم التعامل مع اجاباتكم بشكل غير معروف وبسرية تامة. لن يتم الكشف على هويتك فى البحث او فى اى مكان اخر

ماهى المخاطر المحتملة من المشاركين فى هذا المشروع؟

موضوع البحث يكون مفتوح للنقاش فى دولة الامارات ومعلومات عامة فقط سوف تطلب فى الدراسة الحقلية. نتيجة لذلك المشاركين يستطيعون ملء الاستبيان بدون اى خطر متوقع.

كيف سيتم اجراء هذا المشروع ؟

المعلومات سوف تستخدم فى اغراض الدكتوراة وكذلك فى المجلات الاكاديمية ولكن هذه المعلومات ستم الاطلاع عليها فقط من قبل المشرفين والطالب الباحث. لذلك سيكون هناك سرية كبيرة وستخزن فى مكان امن.

من الذى يقوم بالدراسة ؟

الدراسة تجرى فى كلية الادارة والقانون بجامعة فكتوريا مالبورن, استراليا

الباحث الرئيسى: البرفسور كولن كلارك تليفون: 0061399191565

Email: Colin.clark@vu.edu.au

مساعد الباحث: البرفسور انونة ارمسترونق تليفون: 0061399191840

Email: anona.armstrong@vu.edu.au

الطالب: خالد عثمان موبايل: 0061412866494

Email: khaled.otman@live.vu.edu.vu

اذا كان لديك اى استفسارات اوشكاوى حول الطريقة التى تم التعامل معك بها يمكنك الاتصال بمدير السلامة والبحوث الاخلاقية. لجنة الاخلاق البشرية. جامعة فكتوريا. بريد مصور 14428, مالبورن, فكتوريا 8001 , او تليفون : 0061399194148

Appendix 7 Letter from Faculty of Business and Law Human Research Ethics Committee—HRETH 12/50

MEMO

TO	Professor Clark Accounting and Finance School Victoria University	DATE 26/3/2012
FROM	Dr Nick Billington Chair Faculty of Business and Law Human Research Ethics Committee	
SUBJECT	Ethics Application – HRETH 12/50	

Dear Professor Clark,

Thank you for resubmitting your application for ethical approval of the project entitled:

HRETH 12/50 Corporate Governance Practice and Firm Performance of Listed Companies in the United Arab Emirates (BL HREC 12/43)

The proposed research project has been accepted and deemed to meet the requirements of the National Health and Medical Research Council (NHMRC) 'National Statement on Ethical Conduct in Human Research (2007)', by the Chair of the Business & Law Human Research Ethics Committee. Approval has been granted from 26 March 2012 to 25 March 2014.

Continued approval of this research project by the Victoria University Human Research Ethics Committee (VUHREC) is conditional upon the provision of a report within 12 months of the above approval date (by 26 March 2013) or upon the completion of the project (if earlier). A report pro forma may be downloaded from the VUHREC web site at: http://research.vu.edu.au/hrec.php

Please note that the Human Research Ethics Committee must be informed of the following: any changes to the approved research protocol, project timelines, any serious events or adverse and/or unforeseen events that may affect continued ethical acceptability of the project. In these unlikely events, researchers must immediately cease all data collection until the Committee has approved the changes. Researchers are also reminded of the need to notify the approving HREC of changes to personnel in research projects via a request for a minor amendment.

On behalf of the Committee, I wish you all the best for the conduct of the project.

Kind Regards,
Dr Nick Billington
Chair