

THE IMPACT OF BOARD COMPETENCY AND OWNERSHIP
STRUCTURE ON FIRM PERFORMANCE

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DEDICATION

This thesis is dedicated to the soul of my father who passed away unexpectedly in Ramadan 2009 in Saudi Arabia after performing Umrah and with him being away many dreams passed away too. May Allah the Almighty shower his soul with his blessings and forgiveness and reward him with the paradise, so that his soul can rest in peace, until we reunite again in paradise. This work is also dedicated to my beloved mother, for her prayers are the light that guides me through the mazes of life. I also dedicate this manuscript to my brothers and sisters for their support and encouragement and prayers to reach this important milestone. Last but not the least I dedicate this thesis to my wife Nada, to my lovely daughters, and to my son for their understanding and support during the PhD journey.

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ABSTRACT

This study investigates the impact of board competency and ownership structure on firm performance, using data from 80 (800 firms-year) non-financial firms listed in Muscat Securities Market of Oman between 2003 and 2012. Oman business environment is surrounded by issues like incompetent board members, poor internal controls, ownership concentration and several incidences of fraud that lead to corporate failures. Furthermore, since the issuance of corporate governance code in 2002, there has not been any rigorous study that evaluates the impact of code adoption on firm performance. In this study, board competency has been assessed using two approaches, a composite-index approach and an individual variable approach where the impact of each of the components of the index on firm performance is examined. This study uses seven performance metrics covering firm profitability, firm short-term liquidity, firm market value and firm risk of failure. Descriptive statistics reveal that since the issuance of corporate governance code in 2003, the board competency has been enhanced. The multivariate regression results of board competency index (BCI) confirm the hypothesis that there is a positive and significant relationship between BCI and firm performance. Findings of the individual variable model reveal several novel results; firms with board comprises of 8 to 10 directors is more profitable, they enjoy better short-term liquidity and are in a secure zone from corporate failure. Findings also indicate a negative and significant impact of directors' absence and having more than 4 multiple directorships concurrently on firm performance. This study also discovers that firms having 33% or more independent members perform better. With regard to ownership structure, the study shows that institutional investors have a positive impact on firm profitability and firm's short term liquidity, whereas firms with government ownership display more resilience to corporate failure. Surprisingly, firms that receive more soft government funds are found to be less profitable and more susceptible to corporate failure. The outcomes of various tests for robustness and sensitivity propose that empirical results are vigorous. This study has important implications to corporations in strengthening their corporate governance and attaining cost reduction by eliminating unnecessary corporate governance mechanisms. Policy makers and regulators can use these findings to issue regulations that may have a positive impact on firm's performance. Results gained also provide more avenues for further research.

ABSTRAK

Kajian ini menyelidik kesan kecekapan lembaga pengarah dan struktur pemilikan terhadap prestasi firma, menggunakan data berdasarkan 80 firma bukan kewangan (pemerhatian terhadap 800 firma) yang disenaraikan di Pasaran Sekuriti Muscat, Oman bagi tahun 2003 hingga 2012. Persekitaran perniagaan Oman dicirikan oleh ahli lembaga pengarah yang tidak cekap, kawalan dalaman yang lemah, penumpuan pemilikan dan beberapa insiden penipuan yang membawa kepada kegagalan korporat. Semenjak Oman mengeluarkan kod tadbir urus korporat pada tahun 2002, tidak ada kajian menyeluruh yang telah dijalankan untuk menilai kesan penggunaan kod ke atas prestasi firma. Dalam kajian ini, kecekapan lembaga pengarah dinilai menggunakan dua pendekatan, pendekatan indeks komposit dan pendekatan pemboleh ubah individu yang mana kesan setiap satu daripada komponen indeks bagi prestasi firma dikenalpasti. Berbeza daripada kajian lain, kajian ini menggunakan metrik tujuh prestasi yang meliputi keuntungan firma, kecairan jangka pendek firma, nilai pasaran firma dan risiko kegagalan firma. Statistik deskriptif menunjukkan bahawa pematuhan terhadap tadbir urus korporat yang berkaitan dengan kecekapan lembaga pengarah meningkat secara beransur-ansur sejak pengaplikasian kod Oman bagi tadbir urus korporat pada tahun 2003. Tambahan pula, keputusan multivariat Kuasa Dua Terkecil Biasa (OLS) untuk Indeks Kecekapan Lembaga (BCI) mengesahkan hipotesis kajian bahawa terdapat hubungan nyata secara positif dan secara statistik antara BCI dan prestasi firma. Sebaliknya keputusan model pemboleh ubah individu menunjukkan beberapa dapatan baharu seperti; firma-firma yang mempunyai lembaga terdiri daripada 8 hingga 10 pengarah adalah lebih menguntungkan, mereka menikmati kecairan jangka pendek yang lebih baik dan berada dalam zon selamat daripada kegagalan korporat. Kajian ini juga melaporkan kesan nyata yang negatif dan secara statistik terhadap prestasi firma dengan ketidakhadiran pengarah dalam mesyuarat dan apabila pengarah memegang lebih daripada 4 jawatan pengarah serentak. Selain itu, kajian ini mendapati bahawa firma-firma yang mempunyai 33% atau lebih ahli bebas mempunyai prestasi yang lebih baik berbanding pesaing mereka. Berhubung dengan struktur pemilikan, kajian menunjukkan bahawa; pelabur institusi mempunyai kesan positif terhadap keuntungan firma dan kecairan jangka pendek firma, manakala syarikat milikan kerajaan dilihat lebih berdaya tahan terhadap kegagalan korporat. Namun begitu, firma yang menerima lebih banyak dana mudah kerajaan didapati kurang menguntungkan dan lebih mudah terdedah kepada kegagalan korporat. Hasil pelbagai ujian kekukuhan dan sensitiviti mencadangkan bahawa keputusan empirikal adalah kukuh. Kajian Ini mempunyai implikasi yang penting kepada syarikat seperti menggunakan hasil kajian untuk mengukuhkan tadbir urus korporat dan pengurangan kos pematuhan dengan mengeluarkan mekanisme tadbir urus korporat yang tidak sesuai. Penggubal polisi dan pengawal selia boleh menggunakan dapatan kajian untuk mengeluarkan peraturan-peraturan yang boleh memberikan kesan positif kepada prestasi firma. Kajian ini juga menyediakan ruang untuk penyelidikan lanjut.

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LIST OF ABBREVIATIONS

2SLS	- Two Stages Least Squares
ABSNP	- Board Members percentage of Absence
ABSNP2	- Board Absence of More than 25%
ACCA	- Association of Chartered Certified Accountants
ACCTG	- Accounting
AGR	- Accounting and Governance Risk Score
ALTMANZ	- Altman's Z Score
AMLTM	- Average Multiple Directorships
ASX	- Australian Stock Exchange
BC	- Board Competency
BCAT	- Board Composition and Attribute Sub-index
BCCI	- Bank of Credit and Commerce International
BCI	- Board Competency Index
BCKS	- Board Knowledge and Skills Sub-index
BCSI	- Board Status and Influence Sub-index
BD	- Board
BDSZE	- Board Size
BDSZE2	- Board Size less than seven (the mean)
BDSZE3	- Board Size between 8 and 10
BDSZE4	- Board Size more than 10
BIB	- Bahrain International Bank
BIND	- Board Independence
BIND2	- Board Independence Binary Variable
BOD	- Board of Directors
BSE	- Bahrain Stock Exchange
CBO	- Central Bank of Oman
CEO	- Chief Executive Officer
CFA	- Certified Financial Analyst
CFO	- Chief Financial Officer
CG	- Corporate Governance
CIA	- Certified Internal Auditor
CIMA	- Chartered Institute of Management Accounting

CISA	- Certified Information Systems Auditor
CLSA	- Credit Lyonnais Securities Asia
CMA	- Capital Market Authority
CMA	- Certified Management Accountant
CPA	- Certified Public Accountant
CRATIO	- Current Ratio
CSR	- Corporate Social Responsibility
DIREM	- Directors' Remuneration
EBITA	- Earnings Before Interests Taxes and Allowances
EPS	- Earnings Per Share
EXCOM	- Executive Committee
FBS	- Food and Beverage Sector
FEMALE	- Female Board Member
FP	- Firm Performance
FROWN	- Foreign ownership
GCC	- Gulf Cooperation Council Countries
GDP	- Gross Domestic Product
GIM	- Gompers Ishii and Metrick
GLS	- Generalized Least Squares Regression
GMI	- Governance Metrics International
GMM	- Generalized Method of Moments
GMT	- Government
GMTB	- Government Board Member
GOVOWN	- Government Ownership
GOVOWN2	- Government Ownership Percentage
HIBD	- Highly Influential Directors
INDEXP	- Industry Experience
INDS	- Industry
INSTIV	- Institutional Investors
INSTIV2	- Institutional Investors' Percentage
INVCOM	- Investment Committee
IRRC	- Investor Responsibility Research Centre
ISS	- Institutional Shareholders' Services
LEV	- Leverage
M2CHR	- More than Two Chairmanships
M4M	- More Than 4 Memberships
MDA	- Management Discussion and Analysis
MDSRC	- Muscat Depository and Securities Registration Company
MSM	- Muscat Securities Market
NED	- non-executive Director
NEDs	- non-executive Directors

NMBs	-	Number of Board Meetings
NPMP	-	Net Profit Margin Percentage
OCCG	-	Oman Center for Corporate Governance
OECD	-	The Organization for Economic Cooperation and Development
OLS	-	Ordinary Least Squares Regression
OMAN	-	The Sultanate of Oman
OMR	-	Omani Riyal
OS	-	Ownership Structure
OWNCON	-	Ownership Concentration
PCAOB	-	Public Company Accounting Oversight Board
PRCRT	-	Professional Certifications in Accounting
QGOWN	-	Government Ownership
QGOWN2	-	Quasi-government Ownership
RMC	-	Risk Management Committee
RO	-	Riyal Omani
ROA	-	Return on Asset
ROIC	-	Return on Invested Capital
ROIC	-	Return on Invested Capital
ROs	-	Research Objectives
RQs	-	Research Questions
SEC	-	U.S. Securities and Exchange Commission
SOX	-	Sarbanes-Oxley Act
SRVS	-	Services Sector
TBCOM	-	Total Board Committees
TCL	-	The Corporate Library
TOBINQ	-	Tobin's Q
TOTAST	-	Total Assets
TSR	-	Total Shareholder
UAE	-	United Arab Emirate
USA	-	United States of America
USD	-	United States Dollar
VIF	-	Variance Inflation Factor

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

Corporate governance has gained momentum because of the infamous corporate fraud cases that occurred during the past three decades. As consequence of fraud cases such as the cases of Enron (2000) and WorldCom (2001) in the USA, the Bank of Credit and Commerce International (1991) in the United Kingdom where thousands of jobs were lost (Kroger, 2005; Rockness and Rockness, 2005) and many have lost their equity value because of the sudden plummeting of companies' share price (Thomas, 2002). This thesis investigates the impact of board competency and ownership structure on firm performance based on data collected for the period 2003 to 2012 for non-financial firms listed on Muscat securities market, the lone stock market for the Sultanate of Oman. The following paragraphs highlight justifications for conducting this study in Oman. Firstly, Oman offers a context where the nexus between board competency, ownership structure, and firm performance can be investigated. Board competency has been a real issue in Oman boards, where board members lack basic skills (Dry, 2003).

Secondly, Oman is the first country within the six Gulf Cooperation Countries (GCC) member to issue a code for corporate governance in 2002 and the code was revised and re-issued in 2003, followed by Saudi Arabia in 2006, UAE in 2007, Qatar in 2009, Bahrain in 2010 and most recently Kuwait in 2013. Oman is also the first country in GCC region to establish a capital market authority in 1998, followed by UAE when it established Emirate securities and commodities authority in the year 2000 (Amico, 2014). In addition to being the first country in GCC to issue

and implement a code for corporate governance and the first to establish a capital market authority Oman also won several corporate governance awards for good corporate governance from Hawkamah Institute a regional body for corporate governance based in Dubai. Furthermore, Oman is also known for good corporate governance practices where it ranked 1st in study conducted by Baydoun et al. (2013) for five GCC countries.

Thirdly, there is paucity of research in the relationship of corporate governance and firm performance (Al-Matar et al., 2014). To the researcher's knowledge there are very few articles published on corporate governance in Oman. Dry (2003) published an article on development of corporate governance in Oman, the article theme is the legal development of the code. Another article was published by Shankaraiah and Rao (2005), the focus of that article is on the relationship of corporate governance and international accounting standards. In 2009 a group of researchers on the determinant of effective corporate governance, a comparative study between UAE, Oman and Singapore. None of the mentioned studies have evaluated the impact of adoption of Oman's corporate governance codes on firm performance. This indicate the need for a rigorous study that evaluates the impact of the adopting code articles as well as international best practice corporate governance on the financial performance of Oman's listed firms.

Fourthly, is the fact that as most developing countries Oman borrows from or at least bench-mark its corporate governance rules to developed countries codes, especially the UK code for corporate governance. Because of the very well and long established relationships between Oman and the UK, and also the fact that companies can adopt free what is known as best practice corporate governance. Due differences in societal values, cultural, developmental between developed and developing countries, some borrowed code articles might not be relevant or may not provide the same results, which confirms the need for this study.

The Sultanate of Oman had its share of fraud cases such as the collapse of Oman and Emirates Investment Holding in 2001 and National Rice Mills SAOG in 2002 and Oman National Investment Holding Company (Al-Matari et al., 2014; Dry,

2003). In addition, the recent financial crises in 2008 have further emphasized the importance of the successful corporate governance role on firm performance (Kirkpatrick, 2009). Effective corporate governance is now becoming indispensable in achieving sustainable economic growth (Oman, 2001), transparency, investor confidence and stable stock markets that are more resilient to stock market fluctuations and financial challenges. Developing countries have recently realized the need for good corporate governance for firms, financial institutions and stock markets as well (Oman and Blume, 2005), however, in such volatile economic environments, poor corporate governance may lead to economic problems escalation. Therefore, during the last three decades corporate governance has come to the forefront of knowledge as a distinct and expanding field of study. Due to the separation of ownership and management, having competent corporate boards become an indispensable mechanism in the governance of publicly traded companies (Berle and Means, 1932). Board competency is of paramount importance for boards to execute their duties in monitoring the performance of management and acting as advisor and strategic planners (Huang, 2013). In order for boards to fulfill their roles as monitors of firm performance and strategic advisors, corporate board must be of a high caliber and they must collectively have the necessary knowledge and skills that enable them to oversee management performance and to be actively involved in the strategic planning process. Furthermore, corporate boards must have the necessary organs that facilitate board duties.

In order for firms to have an effective corporate governance system, corporate boards must be highly competent so that they can play their intended roles, in mitigating agency conflict by overseeing executive management and monitoring firm performance (Jensen, 1976). According to resource dependence theory board members with knowledge of finance are more able to exercise their role as advisor for executive management (Haniffa and Hudaib, 2006). Furthermore, equity ownership should be structured in a way that helps in enhancing control and strengthening corporate boards and enhance firms' financial performance. Both board competency and ownership structure fall under the umbrella of corporate governance.

1.2 Status and Comparison of Corporate Governance in Gulf Cooperation Council Countries (GCC)

Corporate governance codes worldwide have turned into key mechanisms for gaining public and investors' trust as well as promoting good corporate governance. Policy makers in member countries of the GCC region are taking the lead and they are committed to secure notably high standards of corporate governance in order to achieve better corporate governance system in their countries (Baydoun *et al.*, 2013). Better corporate governance, contributes to attracting investors and stabilizing stock markets and enhances firm value (Dharmapala and Khanna, 2008). Table 1.1 exhibits information about corporate governance codes issued by GCC member states, date of issue, code enforceability and other codes or guidelines issued.

Table 1.1: Corporate Governance Codes in GCC

Country	Issued In	Enforceability	Other Codes and Guidelines
Bahrain	2010	Comply or Explain	SOE code underdevelopment
Kuwait	2013	Not Implemented	Guidelines for banks
Oman	2002	Comply or Explain	Guidelines for banks Code for insurance companies
Qatar	2009	Comply or Explain	Guidelines for banks and financial institutions
Saudi Arabia	2006	Comply or Explain	Guidelines for banks
UAE	2007	Comply or Explain	Code for banks Code for real estate Code for SMEs

Source: Compiled from OECD publications (Amico, 2014)

As shown in Table 1.1, Oman is the first GCC country to issue a code for corporate governance in (2002). Followed by Saudi Arabia in 2006, UAE in 2007, Qatar in 2009, Bahrain in 2010 and most recently in 2013 Kuwait has issued a code for corporate governance in 2013, which has not yet been implemented, till the time

of writing this thesis. The same table also shows that all GCC countries have separate guidelines for banks and financial institutions: Bahrain has special code for corporate governance for state owned enterprises, whereas UAE has separate codes for real estate companies and SMEs and the Sultanate of Oman has both Bank Guidelines and a separate code for insurance companies.

Furthermore, Table 1.2 shows that all GCC countries have separate authorities for issuing and reviewing corporate governance codes, except Bahrain where the code is issued by the Central Bank of Bahrain (CBB). It also shows that Oman is the first country in GCC to establish a capital market authority in 1998 followed by UAE in 2000 and Saudi Arabia in 2003.

Table 1.2: Securities Regulating Agencies in GCC

Country	Issuing Authority	Established in
Bahrain	Central Bank of Bahrain (CBB)	2006
Kuwait	Capital Market Authority (CMA)	2010
Oman	Capital Market Authority (CMA)	1998
Qatar	Capital Market Authority (CMA)	2005
Saudi Arabia	Capital Market Authority (CMA)	2003
UAE	Dubai Financial Services Authority Emirate Securities and Commodities Authority	2004 2000

Synopsis of GCC Capital Markets

This sub-section provides a synopsis of capital markets in GCC, establishment year, market capitalization, number of listed firms and the type of ownership. As shown in Table 1.3 in page 10, Kuwait Stock Exchange and Saudi Capital Market (Tadawul) are the oldest Capital Markets in the GCC region. They were established in 1983 and 1984 respectively, followed by, Bahrain Stock Exchange in 1987, then Muscat Securities Market of Oman in 1988, and Qatar Exchange in 1997 (Baydoun 2013). The last GCC country to establish a capital market is UAE, which has established three capital markets in 2000 and 2005, two of them, are in Dubai and one in the rich Emirate of Abu Dhabi. It is worth noting that

although Kuwait is one of the first countries in GCC to establish a capital market. However, it is the last GCC state to issue and implement a corporate governance code (Amico, 2014). Although the UAE established its first stock markets in 2000, it has published and implemented several codes for corporate governance including a separate code for real estate companies and one for SMEs, which indicate the rapid pace of change that is happening in the region.

In terms of market capitalization, the Saudi Capital Market is the biggest capital market in GCC with a market capitalization of USD 515 billion, followed by Qatar Exchange with a market capitalization of USD 198 billion (Amico, 2014). However, if the three capital markets of UAE are combined together, the combined UAE capital market will be the second in terms of size with a total market capitalization of USD 254 billion. Kuwait stock market ranked third, followed by the Bahraini capital market and Muscat securities market, which is relatively small in terms of market capitalization. In terms of the number of listed companies, Muscat Securities Market ranked third (118 listed firm) after Kuwait and Saudi Arabia, which have 208 and 164 companies respectively.

1.2.1 Comparison of GCC Members' Codes of Governance

By reviewing the articles of GCC countries codes of corporate governance relevant to board characteristics, it can be noted that all codes are very similar in issues relating to board characteristics. The following paragraphs in addition to Table 1.4 and Table 1.5 in page 11-12, highlight the similarities and differences between and among the codes for corporate governance in GCC countries, except for Kuwait, because it has not yet implemented a code for corporate governance at the time of writing this thesis manuscript. The first element of Board Characteristics that is highlighted here is the CEO-Chairman Role separation. For these elements, it has been found that the codes of governance for all five countries require that CEO and Chairmanship roles be strictly separated. All GCC member countries codes are in full agreement, in that separating such role is a good governance practice. The second element is board member independences. With regard to board independence,

all five countries require one third of board members to be independent directors. However, Bahrain further added that at least three members should be independent for non-controlled companies, while Saudi Arabia added that one third or two members whichever is greater must be independent. The third element of board characteristics relate to non-executive directors. By referring to the codes of governance as summarized in Table 1.4, which shows that, Oman, Qatar, Saudi Arabia and UAE codes of corporate governance, require majority of shareholders to be non-executive directors, while Bahrain code for corporate governance require that 50% of board members should be non-executive directors.

The fourth and important element of board characteristics is board size as summarized in Table 1.4. Bahrain requires that the board size should not exceed fifteen members, Saudi Arabia specified the minimum board size to be three and the maximum to be eleven board members, whereas Oman, Qatar and UAE has no regulation with regard to board size. The fifth element of board characteristics is number of board meetings per year. This element is another area of dissimilarity in corporate governance code articles. Table 1.4 shows that Oman and Bahrain codes for corporate governance require listed companies to hold at least four board meetings a year, while Qatar and UAE codes require six meetings a year, whereas Saudi Arabia code for corporate governance did not specify any minimum or maximum number of meetings to be held per year. The sixth and final element of board characteristics that is a subject of comparison is board committees, which represent a very important organ of the board. Board committees help in streamlining board work and can contribute to board efficiency (Dalton *et al.*, 1998). Concerning board committees, Bahrain code for corporate governance requires the establishment of four committees: an audit, a nomination, remuneration, and a special committee for Corporate Governance. In contrast, Oman code for corporate governance only requires an audit committee, while Saudi Arabia and UAE require the establishment of two committees, one for audit and the other for nomination and remuneration. This indicates that, out of the five countries, only Saudi Arabia and UAE have similar codes with regard to the number and type of board committees. Bahrain has the highest numbers of committees, whereas Oman lacks important committees for remuneration and nomination. As part of board competency components, this study examines the impact of having more board committees on firm performance.

Competency or knowledge of finance and accounting is an important characteristic for board members, especially for members who are also members of the audit committee (Dionne and Triki, 2005). The codes for corporate governance of Oman, Qatar, Saudi Arabia and UAE require at least one member to be a financial expert. Bahrain is even more stringent since it requires audit committees to be composed of members with the majority finance experts.

Executive and directors remuneration provides incentive to the executive management and directors to focus on firms' business, especially if such remuneration is tied to performance. Table 1.5 compares regulations concerning executives and directors' remuneration as per GCC countries codes of corporate governance and provides a summary of GCC countries codes for corporate governance requirements, with regard to executives and directors' remuneration. The following paragraphs discusses the three major issues covered by these codes regarding executives and directors' remuneration.

The first issue is the responsibility for the initiation and policy formulation for executives and directors' remuneration. As shown in Table 1.5, the corporate governance codes for Bahrain, Qatar, Saudi Arabia and UAE recommend that remuneration to be initiated by the remuneration committee. In contrast, the Oman's corporate governance code recommends that the initiation and policy formulation for remuneration is to be determined by company policy. This may be because the Sultanate of Oman code of governance does not require the establishment of a remunerations committee. The second highly important issue is the guidelines that determine whether remuneration should be fixed, be partially based on performance, or be completely based on performance. By referring to the codes of corporate governance, it is noted that a great deal of variability on this issue. To start with, Bahrain guidelines recommend that remuneration be partially based on performance, similarly Oman guidelines require that the majority of directors' remuneration should be based on firm performance. In contrast, Qatar code for corporate governance calls for mixed directors' remuneration, and the Saudi code for corporate governance states that remuneration should be based on company policy, whereas UAE corporate

governance codes requires a fixed amount for the board of directors' members' remuneration.

The third and last issue is the requirement for disclosure of directors' remuneration. By referring to Table 1.4, one can notice that Bahrain code for corporate governance (Bahrain, 2010) is the most transparent in this issue. It requires detail disclosure of directors' remuneration. Unlike Oman, Saudi Arabia code and UAE code require disclosure of only remuneration paid to the top 5 executives or according to company policy, like the requirement of Qatar CG code (Capital-Market-Authority, 2006). In summary, based on the analysis and comparison carried out, GCC codes for corporate governance are very similar in most aspects, which will make it appropriate to generalize the findings of this study to all other GCC countries since they share similar culture and corporate governance systems and regulations. The next section sheds light on Oman's economy, Oman stock market development and corporate governance in Oman.

Table 1.3: Overview of GCC Capital Markets

Country	Capital Market	Established (year)	Market Capitalization (Billion USD)	Number of listed companies	Type of ownership
Bahrain	Bahrain Stock Exchange	1987	53	48	State Owned
Kuwait	Kuwait Stock Exchange	1983	118	208	Public
Oman	Muscat Securities Market	1988	24	120	State Owned
Qatar	Qatar Exchange	1997	198	42	State Owned
Saudi Arabia	Tadawul	1984	515	164	State Owned
UAE	Dubai Financial Market	2000	98	55	State Owned
	Abu Dhabi Securities Market	2000	133	50	State Owned
	Nasdaq Dubai	2005	23	6	State Owned

Table 1.4: Board Characteristics

Element	Country				
	Bahrain	Oman	Qatar	Saudi Arabia	UAE
CEO- Chairman Role Duality	Must Be Separated	Must Be Separated	Must Be Separated	Must Be Separated	Must Be Separated
Independent Directors	1/3 Minimum 3	1/3	1/3	1/3 minimum 2	1/3
None Executive Directors	At least 50% should be NEDs	Majority of members should be NEDs	Majority of members should be NEDs	Majority of members should be NEDs	Majority of members should be NEDs
Board Size	Not exceeding 15 members	No limits	No limits	Between 3 and 11	No limits
No of Meeting per year	Four	Four	Six	No minimum requirement	Six
Board Committees	Four Committees, Audit, Nomination, Remuneration and a CG Committee	Only audit Committee is required	Three Committee, Audit, Nomination and Remuneration	An Audit Com and a combined nomination and remuneration com	An Audit Com and a combined nomination and remuneration com
Financial Expertise (Audit Committee)	Majority should be financial experts	At least one member financial expert	At least one member financial expert	At least one member financial expert	At least one member financial expert

Table 1.5: Executives and Directors Remuneration

Element	Country				
	Bahrain	Oman	Qatar	Saudi Arabia	UAE
Initiation and policy formulation	Remuneration Committee	Based on company policy	Remuneration Committee	Remuneration Committee	Remuneration Committee
Guidelines for remuneration basis	Partially based on performance	Majority performance based	Mixed	Policy based	Fixed for BOD
Disclosure	Details must be disclosed	BOD Remuneration plus top 5 executives plus policies	Disclosure policy	BOD Remuneration plus top 5 executives plus policies	BOD Remuneration plus top 5 executives plus policies

1.3 Oman's Economy, Stock Markets Development and Corporate Governance

1.3.1 Oman Economy

The Sultanate of Oman is a small, friendly, and beautiful country that is located in the Middle East bordering to Yemen and UAE (Al-Hamadi *et al.*, 2007) the biggest trade hub in GCC region. Oman economy is growing rapidly at an exponential rate since 1970 after Sultan Qaboos took power. The backbone for Oman economy is oil and gas that represents around 65% of the countries revenues. Oman crude oil reserve is estimated at around 5.5 billion barrels, representing 0.4% of the world oil reserve. The other 35% of revenues is allocated among processing industry agriculture, fisheries and tourism. Oman has a huge potential for tourism. However the growth in this sector is meant to be gradual in order to avoid the negative impact of mass tourism and to preserve local culture (Oman, 2007). Currently Oman produces around 800 thousand barrels of crude oil per day. Oman economy witnessed a boom during the period 2003 until 2008 when the financial crisis took place.

The country enjoys a stable and growing private sector including agriculture, textile, industry, fisheries, services, retail, and tourism. Oman most important industries are copper, oil mining, cement, and steel (Shachmurove, 2009). During the recent financial crises that hardly hit most economies of the world in 2008, Oman suffered some liquidity issues but it recovered very quickly from that short fall (Bilal, 2015).

1.3.2 Development of Oman Stock Market

The following subsections shed light on the development of capital markets in Oman and describe the important milestones achieved so far. The development of Oman stock market can be broken down to three stages.

Stage 1 of Oman stock market development started when Muscat Securities Market (MSM) was established with a royal decree in 1989. During that embryonic stage of MSM the ministry of commerce and industry (MOC) administered MSM, where the minister of commerce and industry was the chairman of MSM board. This stage has witnessed very important milestones in the development of Oman stock markets. The first milestone is the flotation of shares and the start of trading activities in 1989. Less than two years (in 1991) MSM market index was formed. In December 25th 1996 a cross listing agreement was signed with the state of Bahrain. This period has also witnessed the passing of a new law in early 1997 allowing foreign investors to hold up to 49% ownership of listed companies' equity. Currently foreigners can own up to 65% and, in special circumstances, they can own 100% of equity in free zones (Capital Market Authority, 2014).

Stage 2 started in 1999 where MSM was restructured to three major entities. The first entity is the Capital Market Authority (CMA). Formation of the CMA is a quantum leap in Muscat Stock Market development and governance. The CMA main duties are; a) to organize stock issue and b) to organize stock trading (See

Figure 1.1) and finally c) to oversee MSM operation. The second entity is Muscat Securities Market (MSM), which is where listed companies shares are traded. The third entity is Muscat Depository and Securities Registration Company (MDSRC). MDSRC is responsible for registration and transfer of ownership and custody of ownership documents. MDSRC is linked electronically with MSM to facilitate real time information access (Capital Market Authority, 2014).

One of the most important milestones of stage 2 is that it witnessed the issuance of Oman code for corporate governance. The code was first introduced in 2002 and had been revised and reissued in 2003. By issuing a code for corporate governance in 2002, Oman became the first country in GCC to issue such code and thus the Sultanate of Oman became a clear leader in corporate governance in GCC (Baydoun et al., 2012).

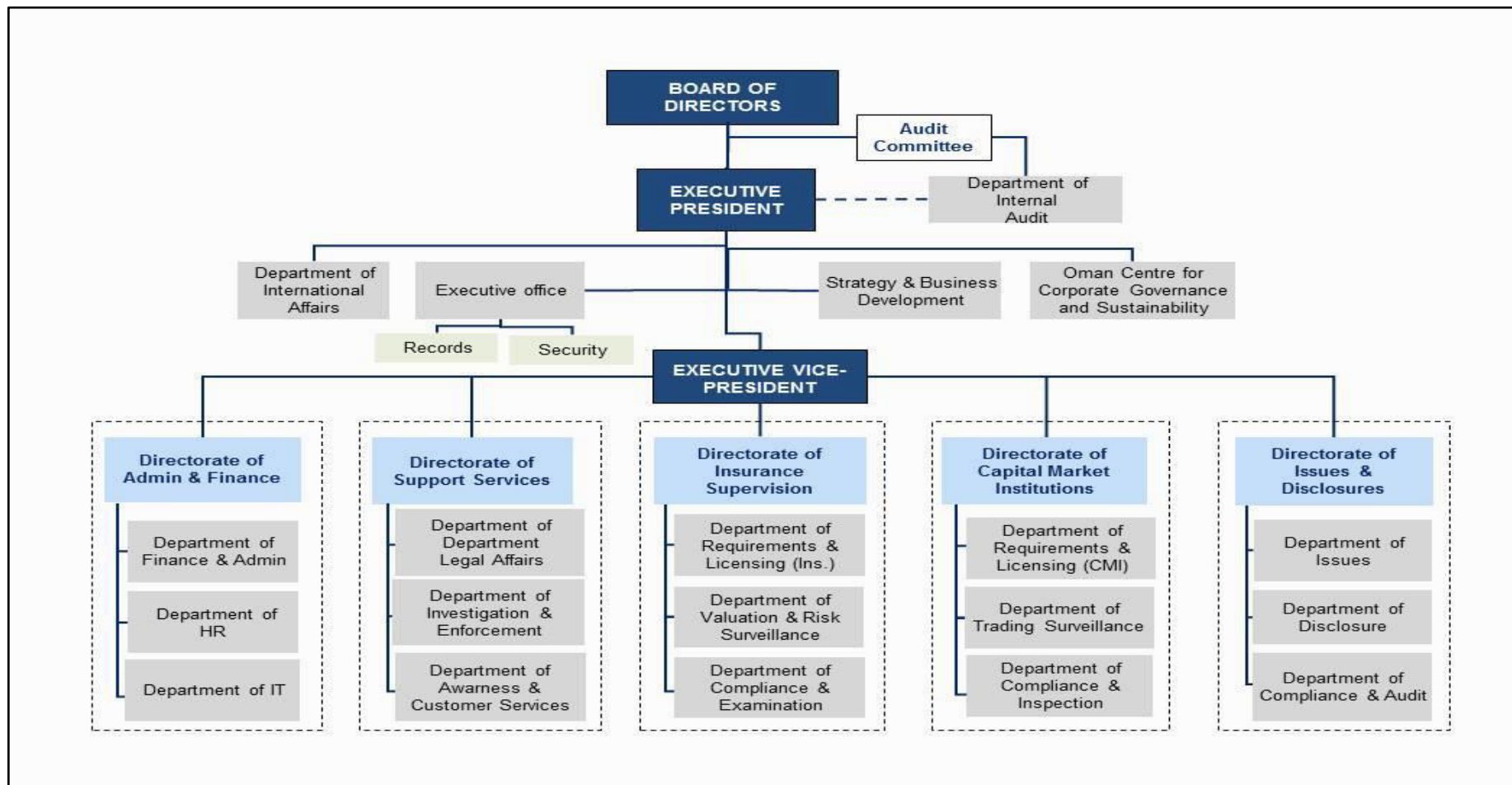


Figure 1.1 Organizational chart of the Oman's CMA, Source:(Capital-Market-Authority, 2014)

Stage 3 started in 2010 when Oman Center for Corporate Governance (OCCG). OCCG was established as a result of the recommendations of the first corporate governance conference that was held in 2008 in the Sultanate of Oman, under the theme “Strengthening trust through corporate governance”. OCCG was established as a separate center under the umbrella of the CMA. OCCG is a specialized corporate governance center and the first of its kind in the Sultanate of Oman. The center’s main objective is to train directors and executives in corporate governance. OCCG renders its services to corporations, investors and to those interested in corporate governance in the Sultanate of Oman. Furthermore, it contributes to establishing the concept and practices of corporate governance through improvement and activation of the role of directors and executive managements of companies through training programs, seminars, conferences, and other services rendered by OCCG. The center also aims at disseminating awareness and good corporate governance practices in the Sultanate of Oman (Capital Market Authority, 2014).

1.3.3 Status of Corporate Governance in Oman

This section provides an overview of the status of corporate governance in Oman, a detailed analysis of GCC codes for corporate governance was given in section 1.2. In a very successful attempt to cope with the worldwide developments in capital markets regulation, the Capital Market Authority (CMA) of Oman issued a code for corporate governance in June 2002. That date marked the issuance of the first code for corporate governance in GCC. The CMA shortly revised, amended, and reissued the code in April 2003.

Oman Corporate Governance Code is composed of twenty-eight articles (see Appendix A). These articles require firms to provide disclosure on core CG mechanisms such as board composition, board committees, expertise, and appointments of executives. Appendix A provides summary of all corporate governance articles of the Code. The CMA requires listed firms to include with their annual reports a corporate governance report that discloses compliance with or

departure from the code. Table 1.6 lists the items that need to be disclosed by Oman's listed firms as part of their corporate governance report. In order to promote and instill a corporate culture for good governance among listed firms, the CMA through Oman Center for Corporate Governance launched a corporate governance excellence award in 2011. This award encourages companies to focus on enhancing the role of board members and improving the transparency standards. The award targets the following; a) drawing companies' attention to productivity, b) augmenting investors' confidence, c) maximizing shareholders' value, d) increasing national income growth, and e) stabilizing the stock market. The objectives of the Corporate Governance Excellence Award as set by the CMA are; a) to increase awareness among stakeholders of the merits of transparency, b) to promote healthy competition among listed firms, c) to persuade companies to abide by corporate governance code, d) to enhance securities market efficiency and, e) to mobilize investment from national and international sources (Capital Market Authority, 2014).

In conclusion, The Sultanate of Oman positioned itself as a leader in corporate governance, among GCC member countries by being the first country in GCC to issue and implement a code for corporate governance, and the first to establish a capital market authority. It is also worth mentioning that following the implementation of the code Muscat Securities Market has witnessed exponential development in terms of size, regulation, and governance.

Table 1.6: Items Required in CG Report for Oman Listed Firms

1	Company's philosophy on code of governance and a descriptive report on how the company has applied the principles of corporate governance as stated in annexure 1.
2	Board of Directors:
2.1	Composition and category of directors for example executive, non-executive, independent and nominee director (with institution represented as lender or as equity investor).
2.2	Attendance of each director at the board meetings and the last AGM.
2.3	Number of other boards or board committees he/she is a member or chairperson.
2.4	Number of board meetings held and dates of the meetings.
3	Audit Committee and other committees:
3.1	Brief description of terms of reference
3.2	Composition, name of members and Chairperson
3.3	Meetings and attendance during the year
4	Process of nomination of the directors
5	Remuneration matters:
5.1	Details of remuneration to all directors and top 5 officers individually including salary, benefits, perquisites, bonuses, stock options, gratuity and pensions etc
5.2	Details of fixed component and performance linked incentives along with the performance criteria
5.3	Service contracts, notice period and severance fees
6	Details of non-compliance by the company
6.1	Penalties, strictures imposed on the company by MSM/CMA or any statutory authority, on any matter related to capital markets, during the last three years
7	Means of communications with the shareholders and investors:
7.1	Whether half-yearly results were sent to each shareholder
7.2	Name of the web-site where these were posted
7.3	Whether the web-site of the company displays official news releases
7.4	Presentations made to institutional investors or to the analysts
7.5	Whether MD&A is part of annual report or not
8	Market price data:
8.1	High/low during each month in the last financial year
8.2	Performance in comparison to board based index of MSM (relevant sector)
8.3	Distribution of shareholding
8.4	Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity
9	Specific areas of non-compliance with the provisions of corporate governance and reasons
10	Professional profile of the statutory auditor
11	Any other important aspect

Source: Capital Market Authority–Oman (2012)

1.4 Problem Statement

As a result of fraud cases such as the cases of Enron and World Com in the USA, the Bank of Credit and Commerce International (BCCI) in the United Kingdom thousands of jobs have been lost (Kroger, 2005; Rockness and Rockness, 2005) and many have lost their equity value because of the sudden plummeting of companies' share price (Thomas, 2002). The Sultanate of Oman, was not an exception, it had its share of fraud cases, such the collapse of Oman and Emirates Investment Holding in 2001, the failure of National Rice Mills SAOG in 2002 and the devastating collapse of Oman National Investment Holding Company (Al-Matari et al., 2014; Dry, 2003). In the context of Oman "over the years, there have been charges that companies hide information, have poor controls and have negligent, incompetent and "bungling" board of directors" (Dry 2003, page 45). In some instances, there have been claims of fraud on the part of directors. These issues have highlighted the need for higher corporate governance standards (Dry 2003), which make having competent corporate boards become an indispensable mechanism in the governance of publicly traded companies (Berle and Means, 1932; Ntim, 2009). Due to the repercussions of corporate governance failure and loose controls, developing countries such as Oman have realized the need for good corporate governance for firms, financial institutions and stock markets as well (Oman and Blume, 2005), since in such volatile economic environments, poor corporate governance may lead to economic problems escalation. In addition, the recent financial crises in 2008 have further emphasized the importance of the successful corporate governance role on firm performance (Kirkpatrick, 2009).

The impact of board competency and ownership structure on firm performance has become the focus of researchers, policy makers, regulators, multinational corporations, and international organizations (Elhabib *et al.*, 2014). This focus is triggered by the global and ever increasing efforts by countries attempting to strengthen their corporate governance regulations in order to avoid the recurrence of the infamous fraud cases and corporate governance failures that have led to the recurrence of financial crises (Akbar, 2015; Elhabib *et al.*, 2014; Khatri, 2015; Schneider and Scherer, 2015). Board competency is of paramount importance

for boards to execute their duties in monitoring the performance of executive management and while acting as advisors and strategic planners for executive management (Huang, 2013). Similarly, having a well-structured ownership is expected to enhance board effectiveness and efficiency and accordingly may lead to better firm performance. In order for boards to fulfill their roles as monitors of firm performance and strategic advisors, corporate board members must collectively have the necessary knowledge and skills that enable them to oversee management performance and to be actively involved in the strategic planning process. Furthermore, corporate boards must have the necessary committees that facilitate board duties.

In order for firms to have an effective corporate governance system, corporate boards must be highly competent so that they can play their intended roles, in mitigating agency conflict by overseeing executive management and monitoring firm performance (Jensen, 1976). According to resource dependence theory, board members with knowledge of finance are more able to exercise their role as advisors for executive management (Haniffa and Hudaib, 2006) and thus they can support executive management in taking sound decisions that may enhance firms' profitability. Furthermore, equity ownership should be structured in a way that helps in enhancing control and strengthening corporate boards so that firm performance can be optimized. Both board competency and ownership structure fall under the umbrella of corporate governance. The term board competency is deliberately used to reflect the scope of knowledge, skills and attributes that the board must have collectively to perform its role as a monitor to executive management performance and an advisor as well. The literature review, presented in Chapter 2, highlighted a number of gaps on the research conducted to date on the impact of both board competency and ownership structure on firm performance (see Table 1.1 pages 16-18).

Prior research have focused on very limited aspects of firm financial performance, specifically profitability and firm value using Return on Assets (ROA), Return on Equity (ROE), Tobin's Q, or any combination of those as proxies for firm performance (Abdullah et al., 2012; Adams and Ferreira, 2009; Adams and Mehran,

2012; Agrawal and Knoeber, 2012a; Agrawal and Knoeber, 2012b; Al-Malkawi and Pillai, 2012; Al-Mashregy, 2012; Al-Shammari and Al-Sultan, 2009; Alfaraih *et al.*, 2012; Arouri *et al.*, 2011; Baydoun *et al.*, 2012; Boubakri *et al.*, 2012; Chaghadari, 2011; Ertugrul and Hegde, 2009; Hasan and Al Mutairi, 2011). These limited measures are not comprehensive enough to cover some of the major aspects of firm performance such as the risk of short-term liquidity and the risk of corporate failure (Elyasiani and Zhang, 2015). This gap has been addressed in this thesis by using more financial metrics covering firm profitability, firm short-term liquidity, and firm probability of corporate failure. Examining the relationship between corporate governance mechanisms and four important aspects of performance provide more information about the nature of the impact of corporate governance on firm performance, so that corrective actions can be taken.

Although there are several studies (Agrawal and Knoeber, 2012a; Al-Saidi, 2010; Chaghadari, 2011; Heenetigala, 2011) that provide evidence that links the individual components of board competency index to firm performance. Prior literature that examined the impact of individual corporate governance mechanisms on firm performance has not systematically identified positive effects and is at best, inconclusive (Bhagat *et al.*, 2008). In fact most prior literature examining the effect of board composition on firm performance found no relationship between important mechanisms such as directors' independence and firm performance (Bhagat and Black, 2001; Hermalin and Weisbach, 2001). To the researcher's knowledge, none of the previous studies has developed a board competency index that combines the individual variables that determine board competency. In addition, majority of prior research (Aljifri and Moustafa, 2007; Fooladi and Shukor, 2012; Kajola, 2008; Zeitun, 2014) concentrated on issues that are considered pieces of the puzzle of board competency, such as board size, number of committees and number of meetings. Moreover, prior researchers (Bassen and Kovacs, 2008; Daines *et al.*, 2010; Ertugrul and Hegde, 2009; Fodor and Diavatopoulos, 2010; Spellman and Watson, 2009) who constructed corporate governance indices have used commercial corporate governance ratings data bases such as; Credit Lyonnais Securities Asia (CLSA), Governance Metrics International (GMI), Investor Responsibility Research Centre (IRRC) and Institutional Shareholders' Services (ISS). Indices that

were constructed based on these databases have been criticized for using too many variables in the index that may not be relevant, and therefore may not predict firm performance (Bebchuk *et al.*, 2009; Daines *et al.*, 2010). This study constructed a board competency index using data collected from published annual reports, which could be more credible than commercial corporate governance databases.

It is important to note that, several researchers have developed corporate governance indices (Bebchuk *et al.*, 2009; Black, Jang, *et al.*, 2006a; Brown and Caylor, 2006; Gompers *et al.*, 2003; Zelenyuk and Zheka, 2006). However, these indices have been criticized for lacking criteria for choosing the index components, as they dump too many variables to create indices or for lacking proper justification for choices of weight for variables forming the contents (Bhagat *et al.*, 2008). The first empirical analysis of this thesis attempted to put the fragmented pieces of the puzzle of board competency together, using an un-weighted board competency composite-index (BCI) and to examine their integral impact on firm performance.

Prior studies used either a composite-index approach or an individual variable approach (Ntim, 2009). Using only one approach may limit the findings of the study to the method used. For instance, if the study adopted a composite-index only, the findings may be limited to the group level. In contrast, if a study uses only individual variable approach, findings on the integral impact of adopting corporate mechanisms as one set may be lost. Distinct from most studies (Al-Ghamdi and Rhodes, 2015; Al-Saidi *et al.*, 2015; Gompers *et al.*, 2003; Vishwakarma, 2015), the impact of each component of the composite board competency index is also investigated using an individual variable approach in order to get an insight on the impact of individual variables on firm performance and to facilitate comparing with previous results. Using two approaches permits testing of the synergistic impact of adopting corporate governance mechanisms relating to board competency as one set on firm performance, as well as the individual impact on firm performance, when they are adopted as stand-alone mechanisms. The following paragraphs provide areas where there is paucity of rigorous research (see Table 1.7), based on the review of the literature.

The first of these areas is the impact of holding too many board seats concurrently. Oman code for corporate governance (2003) requires that no board member shall sit on four board seats concurrently and that no board member should act as Chairman for two companies concurrently. To the researcher's knowledge, no previous study has examined the impact of holding too many board seats concurrently on firm performance in Oman, GCC countries or other countries. There is some research on the impact of the directors' busyness on board meeting attendance e.g. (Falato *et al.*, 2014; Jiraporn *et al.*, 2009). A few researchers view multiple directorships as a favorable (Bammens *et al.*, 2008; Dhaliwal *et al.*, 2010; Ferris *et al.*, 2008) variable that signals board members experience and some used it as a proxy for experience in corporate governance (Salam, 2013).

The second area is the impact of influential board members on firm performance. The presence of influential members on company boards such as cabinet minister, deputy ministers, and members of royal family as board members is common especially in Oman. The existence of such directors is expected to have a significant impact on firm performance, because such firms may have easy access to finance, government contracts, and insider information regarding government plans. To the researcher's knowledge, the impact of this category of directors has not been studied in prior literature, at least in GCC member countries. Examining the impact of influential board members on financial performance may be helpful in selecting and designing competent boards. The third area is the impact of directors' absence from board meetings on firm performance. Board members who have a trend of not attending board meetings are jeopardizing shareholders money. Attending board meetings is very important because it provides a formal floor for discussing strategic and operational issues concerning firm performance and business. Absenteeism of board members could weaken board's ability to monitor firm performance and to plan strategically for the firm.

The fourth gap is the impact of adopting a performance-based directors' remuneration on firm performance. Whether board members' remuneration is a compensation for the time they spend doing firm work, or it is an incentive paid to mitigate the agency conflict, is an area for debate. There is a strong belief that

directors should be compensated. Directors' remuneration can be effective in monitoring senior management tendency to seek their own-selfish interest at the expense of firm owners (Amess and Drake, 2003). Basing board members compensation on firm performance can provide some degree of goal congruence between firms' interests and directors' personal interests. Most prior studies focus on the amount or package paid to corporate directors not on whether it is based on financial performance or not. Although Oman code for corporate governance (2003), recommends that listed companies base majority of directors' remuneration on performance, there is no evidence supporting this recommendation. The second empirical analysis of this study investigated the impact of this variable on firm performance. The fifth area relates to the impact of the impact of industry experience of board members on firm performance. Having board members with experience in the core business of the company is very crucial to the success of the business (Drobetz *et al.*, 2014a; Papakonstantinou, 2008; von Meyerinck *et al.*, 2012). For example, the skill sets that are required for an aquaculture company are different from those required for a cement company. The second empirical analysis of this thesis investigated the impact of board members' industry experience on firm performance.

The sixth area is the impact of ad hoc board committees on firm performance. Board committees are important organs of the board and a number of studies showed association (Dalton *et al.*, 1998; Kesner, 1988) between board committees and firm performance. Oman code for corporate governance (2003) requires only an audit committee, while Cadbury report (1992) and Sarbanes-Oxley (2002) recommended remuneration and compensation committees. In addition to the impact of having more board committees on firm performance, empirical analysis of this study examined the impact of the presence of an investment committee and executive committees on firm performance. The seventh area relates to the impact of institutional Investors on short-term liquidity and the risk of corporate failure. There are several studies which have examined the impact of institutional investors, government ownership, ownership concentration, and foreign ownership on firm profitability and firm value (Al-Saidi and Al-Shammari, 2014; Al Mutairi and Hasan, 2010; Arouri *et al.*, 2011; Baek *et al.*, 2004; Choi and Yoo, 2006; Dwaikat and Queiri, 2014; Shabbir *et al.*, 2014; Zeitun, 2014). However, based on the extensive

literature reviewed (see Chapter 2 section 2.8 pages 88-95) there is lack of studies that examine these variables to firm short-term liquidity and the risk of corporate failure. The eighth area relates to the impact of Quasi-government ownership (government soft funds) on firm performance. As explained in section 2.8.4, the government of Oman provides generous government funding in the form of soft government loans to established firms and start-ups companies in Oman. The impact of such government soft funds (which is considered quasi-government ownership) on firm performance has not been studied yet. This study examined the impact of quasi-government ownership on firm profitability, firm short-term liquidity, firm value and firm probability of corporate failure.

In addition to the above, there is also paucity of comprehensive and rigorous research that examines the nexus between compliance with Oman code for corporate governance (2003) and firm performance (Al-Matar *et al.*, 2014). To the researcher's knowledge, there are very few articles published on corporate governance in Oman. Dry (2003) published an article on the development of corporate governance in Oman. The article theme is the legal development of the code. Another article was published by Shankaraiah and Rao (2005). The focus of that article is on the relationship of corporate governance and international accounting standards. Additionally, in 2009 a group of researchers conducted a study on the determinant of effective corporate governance, a comparative study between UAE, Oman and Singapore. None of the mentioned studies has evaluated the impact of adoption of Oman's corporate governance codes on firm performance. This indicates the need for a rigorous study that evaluates the impact of adopting code articles as well as international best practice corporate governance on the financial performance of Oman's listed firms. Furthermore, as it is the case for most developing countries, Oman borrows from, or at least benchmark their corporate governance rules to developed countries codes, especially the UK code for corporate governance. As the case for most developing countries Oman adopts best practice corporate governance of developed countries. Due to differences in societal values, cultural and developmental attributes between developed and developing countries, some borrowed code articles might not be relevant or may not provide the same results, which may also confirm the need for this study.

1.5 Research Questions

Based on the literature review and the identified research gaps the researcher believes that the following questions need to be addressed in order to bridge the gap and to provide better understanding of the relationship between board competency and firm performance on one side and the relationship between ownership structure and firm performance on the other side. Concisely, the study seeks to answer three main questions as follows:

1. What is the impact of Board Competency Index (BCI) on Firm Performance as measured by ROA, ROE, ROIC, NPMP, Current Ratio, Tobin's Q and Altman's Z score?
2. What is the impact of each component of the Board Competency Index (BCI) on firm performance as measured by ROA, ROE, ROIC, NPMP, Current Ratio, Tobin's Q and Altman's Z score?
3. What is the impact of institutional investor, government ownership, ownership concentration, foreign ownership, and Quasi-government ownership on firm performance as measured by ROA, ROE, ROIC, NPMP, Current Ratio, Tobin's Q and Altman's Z score?

1.6 Research Objectives

The main objective of this research is to assess the impact of board competency and ownership structures on firm performance using data for firms listed in Muscat Securities Market (MSM), which is the lone stock market in Oman. However, the specific objectives are:

1. To examine the impact of board competency index on firm performance, as measured by ROA, ROE, ROIC, NPMP, Current Ratio, Tobin's Q and Altman's Z score
2. To assess the impact of the individual components of BCI on firm performance as measured by ROA, ROE, ROIC, NPMP, Current Ratio, Tobin's Q and Altman's Z score.
3. To examine the impact of ownership structure on firm performance as measured by ROA, ROE, ROIC, NPMP, Current Ratio, Tobin's Q and Altman's Z score.

1.7 Significance of the Study

The significance of this study stems from the panorama of important issues that this study attempts to tackle, and its contributions (see Table 1.7). Firstly, this study constitutes a comprehensive and rigorous examination of the impact of board competency and ownership structure on firm performance in the Sultanate of Oman. To the researcher's knowledge, this is the first and the most comprehensive study to be carried for listed firms in Oman, since the issuance and adoption of its corporate governance code in 2002.

Secondly, to the researcher's knowledge, this is the first study to build a comprehensive composite index for board competency, by using published information collected from companies' annual reports and for a period of ten years. It is worth mentioning that researcher-constructed indices are more credible in measuring the quality of corporate than commercial indices (Bebchuk *et al.*, 2009; Daines *et al.*, 2010).

Thirdly, the study provides several important practical contributions that can be used by corporations to select corporate mechanisms that optimize firm profitability, enhance firm value, and increase firm resilience to corporate failure.

Similarly, regulators and policymakers can also use the study findings to issue corporate governance regulations and design policies that could lead to efficient capital markets through better corporate governance.

Fourthly, this study provides important theoretical contributions by being the first study to examine the impact of corporate governance mechanisms impact on firm short-term liquidity and the probability of failure. Prior studies historically use, ROA, ROE and Tobin's Q, which measures the profitability and firm value aspects of firm performance only. This study also provides empirical contributions by re-examining impact of corporate governance variables on firm performance in the context of Oman. Furthermore, the study uses more performance measures coupled with a three-layer analysis, composed of a composite index level, a sub-index level and an individual variable level, to study the nexus between corporate governance and firm performance. This comprehensive analysis provides a deeper insight in the impact of corporate governance on firm performance.

1.8 Scope of the Study

This study examines the impact of board competency and ownership structure on firm performance as measured by ROA, ROE, ROIC, NPMP, CRATO, TOBINQ and ALTMANZ using data of 80 (800 firms-observation) non-financial firms listed in Muscat Securities Market of Oman for the years 2003 to 2012. Firms in the banking and finance sector are excluded, because they are subjected to special regulations for minimum cash holdings and financial reporting by the Central Bank of Oman (CBO) that are more stringent (Adams and Mehran, 2012; De Haan and Vlahu, 2012), which may affect comparability of those companies' financial statements with other non-financial firms.

1.9 Definition of Key Terms

This section provides the definitions of key terms used in the study. This study mainly discusses issues relating to comprehensive board competency index (BCI), its components, ownership structure and their impact on firm performance measures. The descriptions of these terminologies are shown below.

Corporate Governance: Isa set of mechanisms and rules imposed or recommended by regulators, companies' boards, and shareholders, so that executive management actions are monitored and directed to enhance of firm performance (Cadbury *et al.*, 1992; Rezaee, 2008).

Board Competency: Competency has been defined as the ability to apply knowledge, skills and attributes to work place (Hoffmann, 1999; Rezgui *et al.*, 2014). Thus, board competency can be defined as the ability of the board to utilize its collective knowledge, skills, and attributes in order to mitigate the impact of agency conflict.

Board Competency Index (BCI): The board competency is measured using a comprehensive competency index that includes variables that are expected to have a direct link or effect on overall board ability to perform. Competency refers to the ability to utilize, knowledge, skills and attributes to enhance performance (Hoffmann, 1999).

Ownership Structure: Ownership structure refers to how firm ownership is distributed among different types of shareholders (Abdullah, 2006; Blair, 1995a). Ownership structure has four major categories; i) institutional ownership(Hutchinson *et al.*, 2015), which refers to ownership by shareholders such as banks and mutual funds. ii) Ownership concentration refers to ownership by major shareholders' blocks (5% or more) (Al-Saidi *et al.*, 2015; Ma and Tian, 2014). iii) Government ownership refers to the proportion of equity that is owned by government(Alfaraih *et al.*, 2012; Najid and Rahman, 2011). iv) foreign ownership refers to the proportion of

equity owned by foreign companies or individuals (Bokpin and Isshaq, 2009; Choi and Yoo, 2006; Greenaway *et al.*, 2014).

Firm Performance: This study defines firm performance as the ability of firm to generate profits, be able to meet its current liabilities, have a good market value and remain in a safe zone from bankruptcy (Santos and Brito, 2012; Venkatraman and Ramanujam, 1986).

Firm Short-term liquidity (Liquidity): The risk of short-term liquidity refers to the risk that a firm will not be able to face its current liabilities as they fall due (Raheman, 2012). For the purpose of this study, the risk of short-term liquidity is measured by the Current Ratio, where a current ratio of 2:1 is considered an ideal ratio.

Firm Risk of failure: Refers to the risk that a firm will be bankrupt as measured by Altman's Z score (Altman, 1968; Calandro Jr, 2007; Vimala, 2014).

Table 1.7: Important Gaps, RQs, Findings, Conclusion, and Implications

Research Gap	RQs	Findings	Conclusion	Contribution	Implications
<p>Past research studied the impact of individual mechanism that make-up BC not the combined impact of board competency on FP.</p> <p>Prior studies also ignored the impact of BC on important aspects of FP such as firm short-term liquidity and probability of corporate failure.</p>	<p>RQ 1: What is the impact of BC index [BCI] on FP?</p>	a) BCI has a positive impact on firm performance.	a)Firms with higher BCI are more profitable, enjoy better short-term liquidity and more resilient to corporate failure.	<p>Theoretical:</p> <p>(1) Linking of BC to short-term liquidity and corporate failure, (2) Examining new variables, such as BCI, BCAT, BCKS and BCSI</p>	<p>To corporations:</p> <p>(1) Can use the findings of the study to design competent boards, (2) May modify subsidiary and affiliates boards to achieve more profitability, more value and more resilience to corporate failure, (3) May use the findings for sub-indices to target specific group of mechanisms.</p>
		b) Board Composition and Attributes (BCAT) sub-index has a positive impact of firm performance.	b) Firms with higher BCAT score have higher firm profitability, higher short-term liquidity and higher resilience to corporate failure.	<p>Methodological:</p> <p>(1) Construction of a board competency index, (2) Using three layers analysis composed of composite-index, sub-index and individual variable, (3) using a wide range of performance measures.</p>	<p>To policy makers and regulators: Policy makers can issue regulations that focus on board competency so that they can protect the public interest and safeguard the economy</p>
		c) Board Knowledge and Skills sub-index(BCKS) has a positive impact of NPMP and ALTMANZ	c)Knowledge and skills are important for enhancing profit margin and firm resilience to corporate failure but not valued by market	<p>Empirical: Examining the impact board competency components variables on ROA, ROE and TOBINQ</p>	<p>To Financial analysts and financial advisors: They can use board competency as criteria for investees and take over so as to maximize portfolio earnings and value</p>
		d) Board Status and Influence sub-index (BCSI) has a positive and significant impact on firm profitability measures only.	d) Board Status and Influence enhance profitability but not firm value or help in corporate failure		<p>To researchers:</p> <p>(1) They can conduct further research using more comprehensive measures for firm performance (2) May replicate the study in different context</p>

Table 1.1 Continued...					
Research Gap	RQs	Findings	Conclusion	Contribution	Implications
Lack or paucity of rigorous research: Holding too many board seats [AMLTM],[M4M] &[M2CHR]	RQ2: What is the impact of each component of the Board Competency Index (BCI) on FP?	a)Multiple directorships has a negative impact on FP and the result is significant with ALTMANZ, b) Holding more than 4 seats concurrently has a negative Impact on FP but the result is negative and significant with NPMP only, c) Holding more than two chairmanships is insignificantly related to FP	a) Multiple directorships have a negative impact on FP and is linked to corporate failure and more than 4 directorships has a negative and significant impact on profit margin percentage, but holding more than 2 chairmanships has a non-significant Impact on FP	Theoretical: (1) Linking BC components to Short-term liquidity and Corp failure, (2) Examining new variables such as HIBD, M4M and M2CHR.	To corporations: (1) Boards that have higher average of multiple directorships are more susceptible to corporate failure than their counterparts, (2) Having an investment committee is not a good governance practice, whereas having an executive committee is a good corporate governance practice.
Board Members Absence [ABSNP] and [ABSNP2]		b) Absence has a negative and significant impact on FP	b) Absence of board members is detrimental to firm performance	Empirical: (1)Examining the impact of board competency components variables on ROA, ROE and TOBINQ, (2) examining the impact on firm performance of Alternative variable definitions such as BDSZE2, BDSZE3, BDSZE4, ABSNP2	To policy makers and regulators: Can issue regulations that limit the number of multiple directorships, the number of HIBD or reduce absence percentage
Highly-influential board members[HIBD]		c) HIBD does not drive profitability, increase probability of failure	c) Having a highly influential director in the board does not enhance firm profitability, it may increase firm risk of failure.		To financial analysts and financial advisors: Can advise clients to avoid investing in companies with higher rate of director absence, higher multiple directorship or both
Adhoc board committees [EXCOM][INVCOM]		d)EXCOM has positive impact on ROA, ROIC, TOBINQ and ALTMANZ	d) Executive committee is a good corporate governance mechanism, whereas the investment committee is not.		

Table 1.1 Continued...					
Research Gap	RQs	Findings	Conclusion	Contribution	Implications
Examining the impact of ownership structure on firm short-term liquidity and probability of corporate failure	RQ3: What is the impact of ownership structure on FP?	a) Institutional investors ownership has a positive impact on FP including short-term liquidity and probability of corp. failure.	a)The presence of Institutional ownerships enhances short-term liquidity and resilience to failure.	Theoretical: (1)Linking ownership structure variables to Short-term liquidity and Corporate failure, (2) Examining new variables such as QGOWN	To corporations: (1) More controls might be needed for higher levels of institutional investors, (2) High percentages of FROWN is also not recommend due to negative impact on CRATIO and ALTMANZ
Examining the impact of quasi-government ownership [QGOWN] on FP		b) Higher percentage GOVOWN has a positive impact on TOBINQ and ALTMANZ, but insignificant impact on CRATIO. However, the relationship becomes more significant with higher percentages of GOVOWN.	b) The presence of government ownership enhances firm value and resilience to corporate failure but it is insignificant to short-term liquidity. in contrast QGOWN has a negative impact on all four aspects of FP	Empirical: Re-examining Ownership structure variables impact on existing links with ROA, ROE and Tobin's Q	To policy makers and regulators: In order to protect the public from abuses by foreign ownership a ceiling may be implemented
		c) Ownership concentration has a negative and highly significant impact on FP d) Foreign ownership has a negative and significant impact on CRATIO and Altman's Z and a positive impact on ROE. However, for higher percentages of FROWN the relationship becomes insignificant with ROE and –tive with ROIC	c) The presence of foreign ownership enhances Altman's Z and ROE. However, higher percentages are detrimental to performance.		To financial analysts and financial advisors: They can restructure their investment portfolios, by including company with balanced ownership structure so that risks of abuses by majority shareholders
		e) Quasi-government ownership has a negative and significant impact on FP			

1.10 Structure of the Thesis

This thesis manuscript is divided to five chapters. Chapter 1 contains the thesis introduction, background of the study, problem statements, research question and objectives, study significance, key terms definitions and structure of the proposal. Chapter 2 includes the research literature review, hypothesis development and lays-out the conceptual framework for the study. Chapter 3 describes the research methodology including data collection, composite-index construction, and data analysis. Chapter 4 analyzes the research results through the use of tabulation and interpretations. Chapter 5 is devoted towards the results discussion, limitations of study, contribution of the study, recommendations for future research and a conclusion.

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APPENDIX A

Summary Oman code for Corporate Governance for Listed Companies

Background

The code for corporate governance issued by Circular N0. 11/2002 dated June 3rd 2002 and amended on January 1, 2003. It is composed of 28 Articles and 4 Annexes.

Article (1): **General Definitions**

Independent Director:

He or she or any of his/her first degree has not occupied any senior position (such as the Chief Executive Officer, the General Manager or similar posts) in the company for the last two years. Also he or she should not have had any relations with the company, its parent company or its affiliated or sister companies which could result in financial transactions.

Financial Transactions:

Financial transactions are those transactions, which do not conform to the definition of small value transactions specified in the procurement manual of the respective companies, a copy of which shall be filed in advance with CMA. In addition, the following transactions are also exempted:

- The contracts and transaction entered through open tendering.
- The normal contracts and transactions in ordinary course of business.

Related Party:

It shall include the following:

1. Any person who was director in the last 12 months in the company/ parent of the company/ subsidiaries/ fellow subsidiaries, or
2. Chief Executive Officer or any employee reporting directly to the board, or
3. Any person who holds or controls 10% or more of the voting power of the Company
4. Any person who is an associate of any natural person as mentioned

under 1,2 and 3 above. Associate shall include parents, sons, daughters, spouses and business entities wherein 25% or more of the voting power is controlled collectively or individually, or

5. Any person who is an associate of any juristic person as mentioned under 1,2 and 3 above.

Non-executive Director:

The member of the board who is not a whole time director (employee director) and/or does not draw any fixed monthly or annual salary from the company.

Article (2):The provisions of this code shall apply to publicly listed companies and mutual funds organized as public companies.

Article (3): Composition of the Board of Directors

Subject to compliance of the provisions of the Commercial Companies Law, the following shall apply:

1. The board shall be comprised of a majority of non-executive directors.
2. The roles of CEO/General Manager and chairman shall not be combined.
3. A minimum of 1/3rd of the total strength of the board (subject to a minimum of 2) shall comprise of independent directors.
4. non-executive directors and independent directors shall be identified in the annual report.

Article (4):The board shall meet at least 4 times in a year with a maximum time gap of 4 months between any two consecutive meetings. The minimum information required to be placed before the board shall Composition of the Board of Directors

Article (5): Functions of the Board of Directors:

1. Approving the business and financial policy of the company
2. Reviewing and approving the company's financial objectives, plans and actions.
3. Approving the internal regulations of the company regarding routine activities and specifying the responsibilities and the authorities of the management.
4. Approving and implementing the disclosure policy of the company and monitoring its compliance with the regulatory requirements.

5. Approving the delegation of power to the management; delegation of power shall specify clearly the level of the approving authority and modes of tendering with appropriate limits. Circumstances under which tender other than the lowest tender can be accepted shall be clearly spelt out.
6. Reviewing the company's performance to evaluate whether the business is properly managed according to the company's objective and ensuring compliance with the laws and regulations through proper internal control systems.
7. Reviewing material transactions with the related party, which are not in the ordinary course of business prior to the same being brought before the general meeting of the company.
8. Approving and presenting information accurately and timely to shareholders
9. Reviewing the company's performance to evaluate whether the business is properly managed.
10. nominating the members of the subcommittees and specifying their roles, responsibilities and power.
12. Selecting the CEO/General Manager and other key executives and specifying their roles, responsibilities and power.
14. Evaluating the functions of the sub-committees, CEO and key employees.
15. Approving interim and annual financial statements.
16. Reporting to the shareholders, in the annual report, about the going concern status

Article (6): Directors Secretary and the Minutes:

1. The board, immediately after its composition, shall appoint a secretary to the board.
2. The secretary shall draw the minutes of the each board meeting mentioning the subjects discussed, decisions reached, names of the members present and vote cast by each member. The minutes shall bear the NO number and date.
3. The secretary of the board or any other person so authorized by the board shall make proper disclosure board resolutions according to the provisions relating to disclosures under various laws and regulations.

Article (7): **Audit Committee:**

The board shall set up an audit committee in accordance with the following guidelines:

- a. The committee shall comprise of at least 3 members (all being non-executive directors), a majority of them being independent.
- b. The chairman of the committee shall be an independent director.
- c. At least one member shall have finance and accounting expertise.
- d. The audit committee shall meet at least 4 times a year with majority of independent directors remaining present.
- e. The decision of setting up the committee shall also specify the terms of reference, place and Quorum of the meeting and description of the method of discharge of the responsibilities.
- f. The board shall approve the working plan of the committee prepared by it in clear terms. The plan should specify objectives, membership, powers, date of the meetings, tenure, responsibilities, liabilities and remuneration of its members. The audit committee shall have powers including the following:
 - Seeking the presence of the finance head and head of the internal audit department as invitees in the meetings of the audit committee.
 - Seeking information from any employee of the company.
 - Securing the advice and attendance of outsiders with relevant expertise if considered necessary.
- g. The audit committee shall hear the views of the external auditors before forwarding the annual accounts to the board for approval.
- h. The audit committee shall hear the views of internal and external auditors separately, at least once every year.

Article (8): The role of the audit committee shall be as per annexure (3).

Article (9): The annual general meeting shall appoint external auditors. The following shall apply:

- a. The board shall recommend the name of the auditor for election after considering the proposed recommendation of the audit committee.

b. The auditor shall be appointed for one financial year. The same firm shall not be appointed as external auditors for more than 4 consecutive financial years. After completion of fourth

consecutive term, the firm will be eligible for reappointment as external auditors only after a cooling off period of 2 years.

c. The auditor shall not be allowed to provide n-audit services, which might affect their independence input taking.

d. The external auditors, as part of their audit procedure, shall report to the shareholders any significant concern(s) that come to their attention

e. Frauds detected or suspected by the external auditors shall be reported to the board of the company. However if the fraud is material, he shall report the fraud to respective regulators of the company.

Article (10):The directors shall, at least annually, conduct a review of the effectiveness of the company's systems of internal control and state in their report to the shareholders that they have done so.

Article (11):The executive management shall be appointed under contractual arrangement specifying the terms of the appointment.

Article (12):The board shall appoint and strive towards promoting competence in the management to gain trust of the board and shareholders.

Article (13):The management shall be accountable to the board and the subcommittee of the board. non-executive members and the chairman shall not interfere in the routine matters of the company on daily basis. The articles of the company may provide for designating an employee as managing director on whole time basis.

Article (14):Management shall function according to the duty cast on them as per organizational manual approved by the board specifying the full gamut of the roles and responsibilities. The board shall approve a delegation of power to frame the above responsibilities.

Article (15):The management shall follow the instructions of the board and its sub-committees in order to put its policies into effect. The management shall be responsible for that towards the board.

Article (16):Without compromising the competitive advantage of the company or releasing any information or data given by the management that may harm the company's interest in case of disclosure , the annual report shall contain a management discussion and analysis (MD and A)

report, in addition to the director's opinion, containing discussions on the following matters:

- Industry structure and development
- Opportunities and threats
- Analysis of segment and product wise performance
- Outlook
- Risks and concerns
- Internal control systems and their adequacy
- Discussion on financial and operational performance.

Article (17):Disclosure shall be made, by the management to the board, relating to all financial and commercial transactions, where they have personal interest (for self and relatives up to first degree) that may have potential conflict with the interest of the company at large (e.g. dealing in company's shares and commercial dealings with bodies which have shareholding of management and their relatives).

Article (18):Information like Quarterly results, Statement, explanations and analyses made by company shall be put on the company's website if any and send soft copy on CD to CMA.

Article (19):The related party shall not have any direct or indirect interest in the transactions with the company.

Article (20): The full details of the terms of the transaction shall be sent to all the shareholders as part of the tice for general meeting with the statement from the board

(other than related party) that the transaction is fair and reasonable so far as the interests of the shareholders of the company are concerned.

Article (21): The Company shall prepare written policy and procedures on tenders and procurement. A copy of it shall be filed with CMA.

Article (22): The auditors during the subsequent year shall report about the proper discharge of the responsibilities of the related party under the contract and any other transaction to which it was a party.

Article (23): The above rules and guidelines are not meant to be exhaustive. The additional stipulations as mentioned under IAS, if any, shall also apply.

Article (24): The above stipulations are in addition to the disclosure requirements of CMA.

Article (25): Any transaction, in violation of these guidelines, shall be null and void and will not affect the shareholders adversely. The damages if any shall be borne by the concerned related

Article (26): There shall be a separate chapter on corporate governance in the annual reports of the company highlighting the n-compliance with any requirement.

Article (27): The items as detailed in annexure 4 shall be included in the report on corporate governance. This includes a descriptive report on how the company has applied the principles of corporate governance as stated in annexure (1, 4).

Article (28): The Company shall obtain a certificate from the auditors of, the company regarding report on corporate governance being free from any material misrepresentation