CORPORATE GOVERNANCE AND INFORMATION ASYMMETRY AMONG UAE LISTED COMPANIES

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June 2012

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A project paper submitted to graduate school of business in partial fulfillment of the requirement of the degree master of science of international Accounting

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ACKNOWLEDGMENT

In the name of ALLAH, the most gracious and most merciful

Praise and gratitude be given to Allah the Almighty for putting forward me such a great strength, patience, courage, and ability to complete this thesis. I owe a great deal of gratitude to University Utara Malaysia for giving me the chance to pursue my higher education and to accomplish my purpose of getting this degree, as well as to whole Malaysia (government and friendly people).

My excessive gratefulness to my supportive and helpful supervisor, **Dr. Nor Asma Lode** for her thoughtful guidance, sagacious advices, valuable suggestions, and precious comments during construction my dissertation. Also, I would like to take this opportunity to express my appreciation to reviewer **Dr. Noriah Che Adam** for reviewing this thesis.

I would like to present my thanks to my mother, wife and all my relatives and friends those who helped me always on study through the provision of means of comfort to me and bear all the trouble. I also would like to express my grateful appreciation to all my lecturers who have imparted me valuable knowledge and know-how during my study.

I am thankful and appreciate of what I have conquered. To all those people, thank you so much.

ABSTRACT

This study uses the framework of the agency theory to systematically investigate the relationship between corporate governance mechanisms; board of directors' characteristics (board size, board independence, duality, board meetings, and director's ownership) and audit committee size with the level of information asymmetry in UAE. The multiple regression analysis provides evidence that board size is significantly positive related to information asymmetry. While board independence, board meetings, directors' ownership and audit committee size have a significantly negative association related to information asymmetry. The findings show that the information asymmetry among the United Arab Emirates (UAE) companies is high and the implementation of the Code of Corporate Governance more likely to be underdevelopment.

Keywords: corporate governance, information asymmetry, shareholders, United Arab Emirates (UAE)

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LIST OF ABBREVIATIONS

CEO	:	Chief Executive Officer.
UAE	:	United Arab Emirates.
OECD	:	Organization for Economic Co-operation and Development.
GCC	:	Gulf Cooperation Council
SPSS	:	Statistical Package for Social Science.
VIF	:	Variance Inflation Factor.
GAAP	:	Generally Accepted Accounting Principles
IPO	:	Initial Public Offering
SEC	:	Securities and Exchange Commission

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The asymmetry lies in the difference between what the most informed stakeholders know but the uninformed stakeholders are not informed about certain information. This link impacts growth options, risk, managerial incentives and other factors which mean that the relation does not stem out from an intrinsic doubt regarding the firm performance (Hilary, 2006). Information asymmetry also means when one or more investors are privy to the firm's value while the rest can only access public information (Brown & Hillegeist, 2007). Relationships between companies and upstream suppliers have always been characterized by information asymmetries in a way that one member of the party to the transaction has more information compared to the other (Martin & Johnson, 2010). For instance, information asymmetries stem from hidden actions, meaning to say that the firm has no idea how the upstream supplier will react when he is acting in an unethical way.

The actual elimination of information asymmetry's negative impact can be carried out through maximizing the access to information regarding the company that is non-standard and through the increase of the information visibility of what the company offers the stakeholders. The risk lies in the varying interpretation of the information that the company provides which may lead to different stakeholder behavior (Jasso, 2009). According to Mercer (2004), information precision is an attribute of information that underlies disclosure credibility. It is evident that asymmetric information is related with information disclosure. In other words, the less the information is transparent, the lower the information disclosure will be (Kong, Xiao &

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