BOARD CHARACTERSTICS AND FIRM PERFORMANCE: CASE OF SAUDI ARABIA

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DECLARATION

I certify that the substance of this thesis has never been submitted for any degree and is not currently being submitted for any other qualifications.

I certify that any assistance received in preparing this thesis and all sources used have been acknowledged in this thesis.

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ABSTRACT

Corporate governance (CG) has received much attention in the current studies all over the world especially after many corporate scandals and the failures of some biggest firms around the world such as Commerce Bank (1991) Enron (2001), Adelphia (2002), and World Com (2002).

The aim of this study is to examine the relationship between board mechanisms (audit committee size, audit committee composition, board size, and board composition) and firm performance (ROA) based on the annual reports of listed companies in the year 2011 of sample of non-financial firms in the Saudi Market (*Tadawul*). For the purpose of this study, data was collected from a sample of 102 non-financial listed companies.

Furthermore, an analysis of regression analysis is utilized to examine the relationship between board characteristics and firm performance.The results of this study reveal that audit committee size, audit committee composition and board size have no effect on firm performance in the selected sample while board composition has a significant negative relationship with firm performance.

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Sincerely,

Mohammad Ahid Mohammad Ghabayen

Contents

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

Abbreviation	Description of Abbreviation
CG	Corporate governance
AC	Audit committee
ROA	Return on assets
NASDAQ	National Association of Securities Dealers Automated Quotations
NYSE	New York Stock Exchange
CEO	Chief executive officer
PM	Profit Margin
á0	Constant
FIRMPFC	Firm performance
ACSIZ	Audit committee size
ACCOMP	Audit committee composition
BOARDSIZE	Board size
BOADCOM	Board composition
ε	Error term
ROE	Return on equity
OECD	Organization for Economic Cooperation and Development

CHAPTER ONE

INTRODUCTION

1.1 Background

Corporate governance (CG) has received much attention in the current studies all over the world especially after many corporate scandals and the failures of some biggest firms around the world such as Commerce Bank (1991) Enron (2001), Adelphia (2002), and World Com (2002). Practically, transparency and accountability became needed for attracting investors and capital funds on one hand, and for financial security and stability on the other hand. As the environment business has become very competitive, the uncertainty and risk are the main characteristics for today's business.

Under this modern environment, it became very difficult to predict and control the factors that affect the performance of the firms (Kuratko & Morris, 2003). Good CG practice could be one of the best solutions to reduce the uncertainty and the risk in the current business environment. Furthermore, it could attract investment capital as a result of reducing the risk level.

In fact, the subject of CG is practically very important. Even in developed markets, there is a great debate on how bad or good the current CG mechanisms are (Shleifer & Vishny, 1997). Hence, many international organizations in the world such as the International Corporate Governance Network (ICGN) and the Organization for Economic Cooperation and Development (OECD) have also developed guidelines for CG. The OECD issued a guidance publication for better corporate governance titled "Principles of Corporate Governance" in 1998 and reviewed it in 2004. These principles focus on the performance of long-term economics and enhancement the

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