DETERMINANTS OF FOREIGN SHARE OWNERSHIP OF THE LISTED COMPANIES IN SELECTED GULF COOPERATION COUNCIL (GCC) COUNTRIES

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ABSTRACT

In recent years, foreign share ownership has been proven to be an important financial source for companies to develop and grow. The objective of this study is to examine the determinants of foreign share ownership in selected Gulf Cooperation Council (GCC) countries. Specifically, this study attempts to examine the relationship between the corporate governance mechanisms, ownership structure, firm performance, adoption of English language for annual reports and foreign share ownership. Moreover, this study used firm size, leverage, political risks, exchange rate risk, inflation risk and economic growth (GDP) as control variables. This study is being established based on fixed effect model and conducted over the period of 2012-2015 for 192 non-financial companies (768 company-year observations) listed on the GCC stock markets. The results demonstrate that foreign share ownership is positively related to the board size, board independence, board expertise, board effectiveness, audit committee independence, audit committee expertise, audit committee effectiveness, firm performance (Tobin`s Q), local institutional investors and the adoption of the English language. With respect to family ownership, the result shows a negative relationship with foreign share ownership. However, the results find no influence of frequency meetings of board, audit committee size, frequency meetings of audit committee and audit quality on foreign share ownership. This comprehensive study contributes novel insights to the existing body of foreign share ownership literature, in that foreign investors prefer companies that have effective governance structures, good performance and provide annual reports in English. The results have implications for policy-makers in developing countries in general, and GCC in particular in their endeavours to improve liquidity on stock markets through the participation of foreign investors. Overall, these results are useful to managers in developing countries who are keen to attract foreign ownership.

Keywords: corporate governance, firm performance, ownership structure, English language, foreign share ownership

ABSTRAK

Sejak kebelakangan ini, pemilikan saham asing telah dibuktikan sebagai sumber kewangan penting kepada sesebuah syarikat untuk terus berkembang pesat. Oleh itu, objektif kajian ini adalah untuk mengkaji penentu pemilikan saham asing bagi negara-negara terpilih dalam Majlis Kerjasama Teluk (GCC). Secara khususnya, kajian ini cuba untuk menyelidik hubungan di antara mekanisme tadbir urus korporat, struktur pemilikan, prestasi firma, penggunaan bahasa Inggeris dalam laporan tahunan dengan pemilikan saham asing. Selain itu, kajian ini mengambil kira saiz firma, kadar keberhutangan, risiko politik, risiko kadar pertukaran, risiko inflasi, perkembangan ekonomi (GDP) sebagai pemboleh ubah kawalan. Kajian ini dibangunkan berdasarkan model kesan tetap dan dijalankan sepanjang tahun 2012-2015 ke atas 192 buah syarikat bukan kewangan (pemerhatian tahunan 768 buah syarikat) yang tersenarai dalam pasaran saham GCC. Hasil kajian menunjukkan pemilikan saham asing berkaitan secara positif dengan saiz lembaga pengarah, kebebasan lembaga pengarah, kepakaran lembaga pengarah, kecekapan lembaga pengarah, kebebasan jawatakuasa audit, kepakaran jawatankuasa audit, kecekapan jawatankuasa audit, prestasi firma (Tobin's Q), pelabur institusi tempatan dan penggunaan bahasa Inggeris. Manakala pemilikan keluarga pula menunjukkan hubungan yang negatif dengan pemilikan saham asing. Walau bagaimanapun, hasil kajian mendapati tidak terdapat pengaruh kekerapan mesyuarat lembaga, saiz jawatankuasa audit, kekerapan mesyuarat jawatankuasa audit dan kualiti audit terhadap pemilikan saham asing. Kajian komprehensif ini memberi sumbangan kepada literatur pemilikan saham asing, iaitu ia menunjukkan pelabur asing cenderung untuk mengutamakan syarikat dengan struktur tadbir urus yang cekap, prestasi yang baik dan menyediakan laporan tahunan dalam bahasa Inggeris. Hasil kajian ini secara amnya, memberi implikasi kepada penggubal dasar di negara-negara membangun, dan GCC secara khususnya dalam usaha mereka untuk meningkatkan kecairan pasaran saham melalui penyertaan pelabur asing. Secara keseluruhannya, hasil kajian ini berguna kepada pengurus di negara-negara membangun untuk menarik pemilikan saham asing.

Kata Kunci: tadbir urus korporat, prestasi firma, struktur pemilikan, bahasa Inggeris, pemilikan saham asing

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In the name of Allah, the Most Gracious and Most Merciful. Praise to Allah, Lord of the universe for his bounties and bestowed upon us. Peace be upon Prophet Mohammed S.A.W. the sole human inspiration worthy of imitation. Allah has called Himself Aleem (All-Knowing) and He also called some of His slaves Aleem. So, One Aleem is not like the other. He said, '*We raise to degrees whom We please, but over all those endowed with knowledge is the All-Knowing (Allah)*' [Soorah Yusuf (12): 76].

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GCC	Gulf Cooperation Council
CG	Corporate Governance
CMA	Capital Market Authorities
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
FSO	Foreign Share Ownership
BOD	Board of Directors
BODSIZE	Board Size
BODIND	Board Independence
BODMEET	Board Meetings
BODEXPERT	Board Financial Expertise
BODSCORE	Board of Directors Effectiveness Score
AC	Audit Committee
ACSIZE	Audit Committee Size
ACIND	Audit Committee Independence
ACMEET	Audit Committee Meetings
ACEXPERT	Audit Committee Financial Expertise
ACSCORE	Audit Committee Effectiveness Score
BIG4	Audit Quality
FAMOWN	Family Ownership
INSTITUT	Local Institutional Ownership
TQ	Tobin`s Q
ENADOPT	Adoption of the English Language in External Financial Reporting
FSIZE	Firm Size
LEV	Leverage
PR	Political Risks
ERR	Exchange Rate Risk
IR	Inflation Risk
GDP	Gross Domestic Product

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The purpose of this study is to examine determinants of foreign share ownership in GCC stock markets. Specifically, this study seeks to provide empirical evidence to foreign investors and users by investigate the impact of corporate governance mechanisms, ownership structure, firm performance and adoption of the English language to report financial reporting on foreign share ownership.

This chapter is organized into the following sections. **Section 1.1** discusses the background of the study. **Section 1.2** presents the problem statement. This is followed by research questions and research objectives in **Section 1.3** and **1.4** respectively. Next, the significance of the study is explained in **Section 1.5**. Then, the scope of the study is presented in **Section 1.6**. Finally, **Section 1.7** presents the organization of the study.

1.1 Background of the Study

It has been a consensus among the researchers that foreign investment has a significant role in the economic development for all countries of the world (Bae & Goyal, 2010; Bokpin, Isshaq, & Nyarko, 2015; Mangena & Tauringana, 2007). Anyanwu (2012) stated that foreign investment is considered a key factor of financial globalization phenomenon and the financial integration of world economy[1].One advantage of financial globalization is that it has led to a surge in the flow of foreign capital across

[1] Yeyati and Williams (2014) defined financial globalization as "global linkages through cross-border financial flows that has become increasingly relevant for emerging markets as they integrate financially with the rest of the world".

borders of countries (Singhania & Saini, 2018). The economic effects of foreign inflows may be either bilateral or unilateral among the countries. Al-Jaifi, Abdullah, and Regupathi (2016) and Mangena & Tauringana (2007) underline the potential benefits of foreign capital inflow in the host economies through different channels, influencing the market structures through diversification and having competition and enhancing the employment of human capital.

The foreign capital inflows comprise foreign direct investment (FDI) and foreign share ownership, which termed as foreign portfolio investment[2]. Both are required for sustainable development and substantial economic growth in developed and developing countries (Singhania & Saini, 2018). Foreign share ownership (FSO) and FDI are similar in that they both originate from foreign investors. However, they fundamentally differ in the degree of control position. FSO, investors purchase the securities of a certain firm to earn short-term returns, but they do not actively participate in the operations, the strategic plans and the decision making of domestic companies (Miletkov, Poulsen, & Wintoki, 2014; Mangena & Tauringana, 2007). While in the case of FDI, investors exercise a long-term control position and fully participate in the management (Singhania & Saini, 2018). Accordingly, FSO means the capital inflow in the country or foreign investment came into the country (Haider, Khan & Abdulahi, 2016). FSO is defined as the proportion of share owned by foreign portfolio equity investors (Bokpin et al., 2015; Miletkov, Poulsen, & Wintoki, 2014; Mangena & Tauringana, 2007; Waqas, Hashmi, & Nazir, 2015).

[2] The sole focus of this study is foreign share ownership (FSO).

Most previous studies in developed and developing countries have been focusing on the determinants of FDI, and less attention has been paid to examining the determining factors of FSO (Li & Filer, 2007; Singhania & Saini, 2018). Unlike the prior studies, this current study differs by investigating the determinants of FSO in Gulf Cooperation Council Counties (GCC), namely, Saudi Arabia, the United Arab Emirates, Qatar, Oman and Bahrain. Kuwait in not included because Kuwait did not have an effective code of corporate governance until 2014, when it reworked its regulations. Callen, Cherif, Hasanov, Hegazy and Khandelwal (2014) and Santos (2015) mentioned that the GCC countries are geographically similar, homogenous in their cultures and economic characteristics, and heavily dependent on crude oil production. According to Creane (2004), GCC countries are characterized as having a higher level of fiscal development in contrast to the countries of the Middle East and North-African region (MENA). Nonetheless, the rapidity of the decline in the production of crude oil makes it probable that GCC economies will suffer a very difficult to finance their budgets (Bentley, 2002).

Many experts have forecast that the oil and fossil fuel reserves may be exhausted by 2050, as a result of the increase in global demand (Bentley, 2002). Therefore, when the oil production is exhausted, the GCC countries might become poor countries if they do not find alternative sources of income. In this case, GCC countries need to attract FSO for many significant reasons. The first is to diversify their economic resources and not just to depend on oil revenues, especially with the frequent plummet of oil prices during the crises of 1980, 1998, 1999 and 2015, which resulted in fiscal deficits that adversely affected the budgets of the GCC countries (Callen et al. 2014; Fasano & Iqbal, 2003; Santos, 2015).

Second, a report of World Bank (2017) stated clearly that GCC governments need to focus on promoting the emergence of fast-growing high productivity private sector companies that would generate jobs. To do so, these firms need to attract foreign share ownership as one of the most significant financial sources to expand their businesses. Furthermore, FSO increases the liquidity of domestic capital markets in the GCC, and, in addition, could support the development of market efficiency. The more liquid that markets tend to be, the more they turn out to be deeper and larger, and thus a wider array of a company's investments can be financed. This may lead to creating new jobs that, in turn, improving the quality of life of individuals (Elimam, 2017).

Third, FSO can enhance foreign currency inflow in GCC countries, which is commonly highly required for financing foreign payments as well as for imports in developing countries. Thus, FSO may reduce the pressure created by a foreign exchange gap by supplying foreign currency to the relevant countries (Mangena & Tauringana, 2007).

Fourth, sustainable FSO may provide good perceptions to foreign investors about an open market and economic freedom in GCC countries, which, in turn, may improve the value and position of local firms (Al Samman & Jamil, 2018).

Fifth, FSO will help to develop GCC region through technology, knowledge and skills that can improve the productivity of local firms (Elimam, 2017). Additionally, FSO may help the domestic capital markets of the GCC countries to break out of the vicious cycle of underdevelopment (Kern, 2012). FSO also may increase tax revenues and improve management, technology, as well as labour skills in GCC countries (Elimam, 2017).

Thus, GCC countries have an interest in attracting FSO to achieve the objective of higher economic development (Santos, 2015). The GCC countries established a comprehensive plan to diversify their economic sources by improved policy and regulatory environment that is more attractive to foreign investors (Elimam, 2017). GCC countries also have implemented a number of measures aimed at boosting the attractiveness of their investment environments. The measures are several. First is a reduction of investment barriers as GCC countries now permit foreigners to own 49% in listed companies, except for Oman that allows foreigners to own 70% of a company (Santos, 2015). Second is a reduction in corporate tax rates including tax holidays. GCC countries now provide incentives to attract foreign investors, like tax-free initiatives (Elimam, 2017; Kern, 2012). Third is expediting the issuance of visas. Fourth is creating one-stop shops to reduce the time needed to approve and register investments marketing available investment opportunities. Fifth is eliminating or reducing minimum capital requirements (Elimam, 2017).

On the downside, the investment activity of foreign investors in the listed companies in the stock markets of GCC countries remains very low compared with other developing countries.

Table 1.1 clearly shows that the GCC countries have failed to attract a high degree of foreign ownership compared to other countries. Nonetheless, GCC countries have huge financial ability and stable conditions and the availability of a superior infrastructures (Almutairi, 2016; Callen et al., 2014). Nonetheless, other countries remain more attractive for foreign investors, despite that fact that they have a lower financial position or inadequate infrastructure.

Table 1.1.
Statistics Foreign Share Ownership in Selected Developing Countries: 2012-2015

GCC Countries	**2012**	**2013**	**2014**	**2015**
Bahrain	2.7%	3.8%	4.8%	4.9%
Oman	9.0%	10.6%	11.5%	12.1%
Qatar	6.6%	6.4%	6.6%	6.3%
Saudi Arabia	7.6%	7.7%	7.4%	7.1%
UAE	6.0%	6.8%	11.0%	7.7%
Other Developing Countries	**2012**	**2013**	**2014**	**2015**
Egypt	12.1%	20.5%	16.0%	21.5%
Jordan	51.0%	51.5%	49.0%	48.6%
Nairobi	49.2%	48.4%	46.7%	56.1%
Nigeria	56.0%	53.0%	65.1%	53.0%
Zimbabwe	41.0%	40.0%	53.0%	70.0%

Source: Dubai Stock Exchange reports (2012-2015), Abu Dhabi Stock Exchange reports (2012-2015), Saudi Stock Exchange reports (2012-2015), Oman stock markets reports (2012-2015), Qatar stock market reports (2012-2015), Bahrain bourse reports (2012), Egyptian stock exchange reports (2012-2015), Jordan Stock Exchange reports. (2012-2015), Nigerian Stock Exchange reports (2012-2015), Nairobi security exchange reports (2012-2015), Zimbabwe security exchange reports (2012-2015).

Considering the relevant circumstances, foreign investors are still reluctant to take advantage of the opportunity being provided by GCC countries (See figures reported in Table 1.1.). The conditions may be attributed to the constraints and obstacles that foreign investors face, making the region unattractive. Al-Matari, Al-Swidi and Fadzil (2012), Claessens and Yurtoglu (2013), Santos (2015) and Shehata (2015) stated that GCC countries have poor corporate governance systems, out-of-date regulations that do not ensure legal protection for foreign investors, the fluctuation of firm performance and the domination of business ownership by the royal families. Further unique features in GCC stock markets are low institutional ownership, high government interventions, poor disclosure, high insider trading, high earnings management, and low financial

reporting quality (Al-Bassam, NtimOpong & Downs, 2018; Kern, 2012)3. As a result of these deficiencies and the desire to attract foreign investors, GCC countries have decided to pay more attention to these shortcomings and revise their policies by adopting the best international practices of corporate governance, assessing firm performance and improving market mechanisms, which, in turn, could lead to the enhancement of the confidence of foreign investors and attract their investments (Kern, 2012; Santos, 2015).

Singhania and Saini (2018) argued that the participation size of FSO in the stock markets of the developed and developing economies are different because of the dissimilar adoption of good corporate governance mechanisms and different environments. Accordingly, a consensus exists among fiscal analysts that the effectiveness of corporate governance practices has affected the investment decisions of the foreign investors (Bokpin et al., 2015). Due to recent financial crises[4], corporate governance has assumed a vital role in the financial studies of the academic world (Agrawal & Chadha, 2005; Bokpin et al., 2015; Mangena & Tauringana, 2007).

Effective mechanisms of corporate governance are more likely to improve the quality of financial reporting than to protect the rights of foreign investors (Hussain, Hasnan, Sanusi, & Mahenthiran, 2016). These mechanisms decrease the information asymmetry between insider and foreign investors, as they enhance the quality of financial reporting (Cohen, Krishnamoorthy, & Wright, 2004). According to the agency and signalling theories, the corporate governance mechanisms have significant roles in monitoring and

[3] Managers use earnings management in financial reporting to mislead foreign concerning the actual financial position of the company or to manipulate firm value (Dechow, Sloan and Sweeney, 1996).
[4] The financial crises that occurred in Asia in 1997 and 1998 and the corporate scandals, namely Global Crossing 2002, WorldCom 2002, Enron 2001 and Tyco 2002.

controlling the actions of a firm's management (Al-Rassas & Kamardin, 2016; Dhaliwal, Naiker, & Navissi, 2010; Hillman & Dalziel, 2003; Hillman, Withers, & Collins, 2009; Johnson, Boone, Breach, & Friedman, 2000).

Managers may engage in earnings management actions to mislead investors about firms' performance. Generally, executive managers use earnings management practices to hide the real economic and financial information of firms, which may mitigate the quality of financial reporting and hereafter mislead foreign investors. Thus, corporate governance mechanisms are employed to mitigate the issue of the deviation of interest by management and protect capital owners and foreign investors from the opportunistic behaviour of management, which may lead to the increased integrity of the financial reporting process and enhancing financial information reliability (Jensen & Meckling, 1976; Pfeffer, 1972; Rouf, 2012; Shleifer & Vishny, 1997; Persakis & Iatridis, 2016; Yatim, Iskandar, & Nga, 2016).

Effective governance mechanisms may reduce agency conflicts in firms and enhance the credibility and quality of financial reporting that may, in turn, affect the decisions of foreign investors (Adiguzel, 2013; Al-Rassas & Kamardin, 2016; Pergola & Joseph, 2011; Song & Windram, 2004; Ward, Brown & Rodriguez, 2009). Previous studies have provided empirical evidence that effective governance mechanisms have negative relationships with earnings management practices (e.g., Al-Rassas & Kamardin, 2016; Epps & Ismail, 2009; Habbash, 2012; Saleh, Iskandar, & Rahmat, 2007; Shayan-Nia, Sinnadurai, Mohd-Sanusi, & Hermawan, 2017; Soliman & Ragab, 2014; Song & Windram, 2004). In the mentioned studies, the negative relationship may be attributed to the fact that good corporate governance mechanisms lead to an increase in disclosure

and a reduction of spurious financial reporting and fraud. Thus, effective mechanisms of corporate governance are more likely to have the ability to protect the foreign investors from misleading financial information.

The board of directors (BOD) is the foremost internal governance mechanism responsible for monitoring the decisions of executive managers (Al-Manaseer, Al-Hindawi, Al-Dahiyat, & Sartawi, 2012). The key role of the BOD is to supervise and monitor management actions on behalf of investors (Fama & Jensen, 1983; Jensen, 1986). The BOD is accountable for determining the overall strategy of the firm and to make sure that sufficient measures exist for the protection of the investor's wealth (Keenan, 2004). Previous studies have reported that the BOD is a highly significant determinant for creating confidence among investors, as they may provide high-quality financial reporting (Agrawal & Chadha, 2005; Al-Manaseer et al., 2012; Al-Rassas & Kamardin, 2016; Bokpin & Isshaq, 2009; Bokpin, et al., 2015; Mangena & Tauringana, 2007; Mallin, 2012; Min & Bowman, 2015; Miletkov, Poulsen, & Wintoki, 2014).

The audit committee (AC) also plays a vital role in the financial supervision of the activities of a firm (Eyenubo, Mohammed & Ali, 2017; Li, Mangena, & Pike, 2012; Madi, Ishak, & Manaf, 2014). Traditionally, the main function of AC is to oversee the integrity of the financial statements presented by management (Bin-Ghanem & Ariff, 2016). An effective AC will provide effective oversight of accounting policies and rulings and lead to better quality of overall financial statements (Eyenubo et al., 2017).

Despite the significant role of the BOD and AC in the quality of financial reporting, prior studies in developed and developing countries have not considered the

effectiveness of BOD and AC with respect to their financial expertise and meetings in the relationship with FSO (Bokpin & Isshaq, 2009; Bokpin et al., 2015; Dahlquist & Robertsson, 2001; Klapper & Love, 2004; Kansil & Singh, 2017; Mangena & Tauringana, 2007; Min & Bowman, 2015; Miletkov et al., 2014; Waqas et al., 2015). To fill this gap, this current study examines the relationship between the BOD and AC through their characteristics (size, independence, meetings, financial expertise and their effectiveness) and FSO in GCC stock markets.

In addition to the BOD and AC, audit quality is considered as an external mechanism of corporate governance. External auditors reduce information asymmetries between managers and foreign investors through credibility of financial statements (Eyenubo et al., 2017). Commonly, audit quality is measured through the usage of Big 4 audit firms, namely PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst and Young, and KPMG, and those Big 4 audit firms are seen as playing important roles in the quality of annual reports (Kilgore, 2007). Francis and Yu (2009) indicated that the Big 4 audit firms produce better audit quality and practice more effective monitoring than non-Big 4 audit firms. Big 4 audit firms are seen to have more experience and knowledge about the clients and their specialisations in relationship to non-Big 4 auditors (Al-Ajmi, 2009; Francis & Yu, 2009; Krishnan, 2003; Okike, 1999). As Big 4 audit firms are in position to discover opportunistic behaviours, the managers are, therefore, either compelled or encouraged to be more accountable.

While audit quality via Big 4 firms and its relationship with audit quality has been studied extensively, little research has examined the link the relationship between the

audit quality and FSO, particularly in the stock markets of GCC countries. To fill this gap, this current study investigates the association between the audit quality and FSO.

Furthermore, the structure of ownership has been argued to affect the long-term performance of the firms, and the ownership structure is also considered as another corporate governance structure that may mitigate agency problems between the investors and managers of the firm (GarcíaMeca & Sánchez-Ballesta, 2009). The ownership structure can be classified in two categories, namely, family ownership and institutional ownership. Highly concentrated ownership has been seen to create agency conflicts between controlling shareholders and foreign investors (Claessens, Djankov, & Lang, 2000; Fan & Wong, 2005). The protection of foreign investors depends greatly on the standards of the corporate governance system and the ownership structure of a firm (Anderson & Reeb, 2003; Claessens et al., 2000; Villalonga & Amit, 2006).

The nature of ownership structure in GCC companies is a unique and different from other developing countries, as the majority of listed companies are controlled through the royal families. According to Santos (2015), 70% of businesses activity in the GCC is family owned and dominated. Despite the fact that family-owned companies in the GCC have made substantial progress in the establishment of corporate governance system, the systems are still too poor to be systematically implemented (Raghu, 2015). When the royal families' members have the authority to act for their own benefits, this may conflict with the interests of foreign investors, creating a special type of agency problem.

With regard to ownership structure, local institutional investors constitute part of the most vital external control mechanisms influencing governance. Local institutional

investors may possess incentives and the power to supervise management performance and improve firm value (Shleifer & Vishny, 1997; Mitton, 2002; Lins, 2003). Chung and Wang (2014) and Bos and Donker (2004) argue that local institutional investors are able to discover the opportunist behaviour of management because they have the financial expertise and can understandably interpret the information disclosed in the annual reports in context. Local institutional investors have more authority and power to monitor the activities of managers more than foreign investors do (Al-Najjar, 2010).

This study excludes managerial and government ownership, out-dated regulations that lead to problem in legal protection and high government interventions because a strong and effective board and an audit committee can mitigate the government interventions and the issue of the conflict of interest by managers, and protect foreign investors from the opportunistic behaviour of managers (Baydoun, Maguire, Ryan, & Willett, 2012). The main function of BOD is to monitor and supervise management actions on behalf of investors (Fama & Jensen, 1983; Jensen, 1986). Therefore, this current study investigates the relationship between the ownership structure (family ownership and local institutional investors) and FSO in GCC stock markets.

Beside governance mechanisms, firm performance is critical to investors especially when it impacts returns on investment directly, and investors seek to increase their wealth (Appuhami, 2007). In accordance with agency theory, the management of the company works to improve the performance of a firm which, in turn, leads to a rise in shareholders' wealth (Jensen & Meckling, 1976). In this GCC, firm performance has remained weak. As Securities and Commodities Authority (2012, 2013, 2014 and 2015) indicated, the overall performance of the listed companies in the GCC stock markets

has suffered from fluctuations between 2009 and 2015. Performance dropped in 2011 and again declined between 2013 and 2015. This is shown in Figure 1.1.

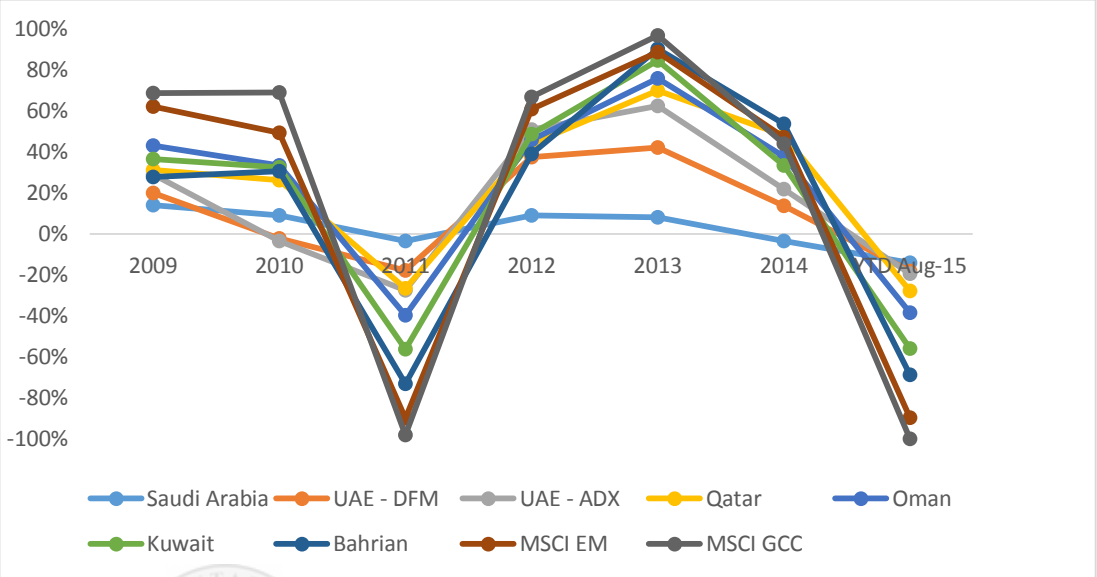

Figure 1.1.
Fluctuation of Market Performance in GCC.
Source: Securities and Commodities Authority (2012, 2013, 2014 and 2015)

Capital gains are one principal aim of investors, wherein they sell shares when the market price is greater than the purchase price thus leading to capital gains (Appuhami, 2007). Investors have been subject to wide swings in share prices during the period from 2009 to 2015. To understand the impact of these fluctuations, this study examines the relationship between firm performance and FSO in the GCC stock markets.

Finally, language is considered as to be a barrier for the provision of information to foreign investors (Hau, 2001; Jeanjean, Stolowy, Erkens & Yohn, 2014). If such a barrier to foreign investment includes difficulties in understanding narratives of an annual report's elements, then the language employed may influence the decisions of foreign investors. Thus, the argument can be made that the language employed in an annual report may comprise an information-based limitation and prevents cross-border

investments. In the GCC, the first language is Arabic, but Arabic is only understood by about 420 million people across the globe and Arabic is not the first language of any high GDP country (Ridout, 2018).

For various reasons, English has become first language of business and will remain so for the foreseeable future. Indeed, English has become critical for international sectors (Jeanjean et al., 2014). Therefore, it stands to reason that an annual report drawn up in English language is needed and would provide access to disclosed reporting for foreign investors who are not proficient in the Arabic language and, consequently, would minimize the information asymmetries between foreign and local investors. Thus, providing annual reports in an English language may result in the attraction of foreign investors as reports in England are more clearly understood by them (Jeanjean et al., 2014). This study investigates the relationship between adoption of English language to report financial reporting and FSO and its influence on the investment climate.

Due to government deficit, the GCC has begun to pay attention to revising their economic policies and determinants to make FSO more attractive. This could enhance investors' confidence about the investment environment in the countries and support the diversification programs in their economies so that crude oil receipts to fund their budgets are less relied upon. Generally, this study explores the effects of the BOD and AC through their characteristics (e.g., size, independence, meetings, financial expertise and their effectiveness); audit quality (Big 4 auditors); ownership structure (family

ownership and local institutional investors); firm performance and the use of the English language for financial reporting on the FSO[5].

1.2 Problem Statement

GCC countries provide incentives to attract foreign investors, like tax-free initiatives and permitting foreigners to own 49% in listed companies (Santos, 2015). Despite the various benefits of FSO concentration associated with the rapid economic growth in developed and developing countries, GCC countries have not adequately attracted foreign investors (Almutairi, 2016; Kern, 2012). Based on the statistics available, the investment activity of foreign investors in the GCC countries remains very low. For example, as a percentage of the total ownership, the average of FSO in Saudi was around 7.5%; in the UAE was around 7.9%; in Qatar was around 6.5%; in Oman was around 10.8%; and in Bahrain was around 4.1%, over the study period of 2012-2015, respectively (Annual reports of Abu Dhabi Stock Exchange 2012-2015, Annual reports of Dubai Financial market 2012-2015; Annual reports of Saudi Stock Exchange 2012-2015; Annual reports of Oman stock markets 2012-2015; Annual reports of Qatar stock market 2012-2015). Apparently, foreign investors are still reluctant to take advantage of the opportunities being provided by GCC countries. However, the level of FSO in listed companies remains below this threshold (Elimam, 2017; Kern, 2012).

Much research on FSO has been carried out in both developed and developing countries (e.g., Aggarwal, Klapper, & Wysocki, 2005; Bowman & Min, 2012; Bokpin & Isshaq, 2009; Bokpin et al., 2015; Dahlquist & Robertsson, 2001; Jiang & Kim, 2004; Kang,

[5] This study groups the board of directors and audit committee' characteristics (size, independence, meetings, financial expertise and their effectiveness) and the audit quality and their effect on the foreign share ownership as a one objective.

1997; Mangena & Tauringana, 2007; Miletkov et al., 2014; Min & Bowman, 2015). The results indicated that foreign investors are more attracted to large firms with high a book-to-market ratio, low leverage and high independence of board of directors as well as audit committees.

The above results cannot be generalized to developing countries in general and GCC countries in particular for the following reasons. One is a lack of studies with respect to foreign share ownership in developing countries. The developing countries have unique features such as insufficient corporate governance system, high ownership concentration and low legal protection (Claessens & Yurtoglu, 2013). Therefore, this study focuses on the Gulf Cooperation Council (GCC), as developing countries have insufficient corporate governance systems (Al-Matari et al., 2014). In addition, the GCC countries have a concentrated ownership structure in which family owners typically control around 70% of business (Gulf Family Business et al., 2015). Further unique features in GCC are low institutional ownership, poor information, high insider trading, high earnings management, politically unstable markets, low financial reporting quality and high political connection (Kern, 2012). Moreover, the overall performance of the listed companies in the GCC stock markets have suffered from fluctuations between 2009 and 2015 (Securities and Commodities Authority, 2012, 2013, 2014 & 2015).

Nonetheless, few studies have examined the factors that attract foreign investors to GCC-listed companies with respect to the influences of the BOD and AC throughout their characteristics (e.g., size, independence, meetings, financial expertise and their effectiveness); audit quality (Big 4 auditors); ownership structure (family ownership

and local institutional investors); firm performance and the use of the English language in financial reporting on the FSO.

The implementation of effective corporate governance mechanisms to protect the rights of the foreign investors would make the region more attractive to these investors. An effective BOD and AC are likely to improve the quality of financial reporting and protect the rights of foreign investors (Keenan, 2004). Previous studies have reported that the BOD is a highly significant determinant to bring the confidence of investors, as they may provide a high quality of financial reporting and other advantages related (Agrawal & Chadha, 2005; Al-Manaseer et al., 2012; Al-Rassas & Kamardin, 2016; Bokpin & Isshaq, 2009; Bokpin et al., 2015; Mangena & Tauringana, 2007; Mallin, 2012; Min & Bowman, 2015; Miletkov et al., 2014).

Morever, Eyenubo et al. (2017) and Johl, Johl, Subramaniam & Cooper (2013) have stated that the quality of financial reporting is the main responsibility of BOD and AC. The AC can mitigate agency problems by reducing the information asymmetry between insiders and minority shareholders (García, Barbadillo, & Pérez, 2012; Vafeas, 2005). In addition, an AC will provide a monitor role over accounting policies and rulings, as well as the quality of the overall financial statements (Eyenubo et al., 2017). Therefore, this study examines the relationship between BOD and AC characteristics (including size, independence, meetings, financial expertise and their effectiveness) and FSO.

In addition, audit quality is an external mechanism of corporate governance to improve the quality of a financial report and to protect investors from misleading information. Effective audit quality is likely to mitigate earnings management practices. The

managerial discretion in managing earnings can be constrained if a firm is audited by qualified auditors as proxied by Big 4 auditors (Becker et al., 1998; Chiang et al., 2011; Francis et al., 1999; Francis & Yu, 2009). Big 4 auditors have more skills and experience to audit the financial activities of clients and detect violation in financial reports as well as having more knowledge about the clients and their specializations in relative to non-Big 4 auditors (Francis & Yu, 2009; Krishnan, 2003). Thus, this study examines the nature of the association between audit quality proxied by Big 4 audit firms and FSO.

The nature of ownership structure of GCC companies is different than those of other developing countries as the majority of listed companies are controlled through royal family ownership. This domination affects the systematic implementation of governance mechanisms, which results in poor quality financial reporting that makes foreign investors less confident and thus not attracted to these marketplaces (Raghu, 2015). Additionally, the members of royal families often have the authority to act for their own benefits, which conflict with the interests of investors (Santos, 2015). Another characteristic of the ownership structure in the GCC is the percentage of local institutional investors. Local institutional investors are considered to be an effective monitoring body for the managerial process of financial reporting so that these reports as of higher quality (Al-Najjar, 2010), which motivates foreign investors to be attracted more to firms. It has, however, been shown that the percentage of local institutional investors in GCC countries is low compared to other Arab countries (GulfBase, 2015). Thus, this current study explores more on the impact of ownership structures (family, local institutional investors) on FSO.

This study examines the relationship between firm performance and FSO, for three reasons. First, firm performance is the main target of all investors (foreigners and local), especially because this directly impacts the return of investment and investors aim to grow their wealth (Appuhami, 2007). Second, this study provides evidence about the effect of firm performance on FSO in GCC, which is necessary and required due to the high fluctuations of firm performance in the stock markets of GCC (Securities & Commodities Authority, 2012, 2013, 2014 and 2015). Third, previous studies have found a positive relationship between firm performance and foreign ownership (Bokpin & Isshaq, 2009; Mangena & Tauringana, 2007; Miletkov et al., 2014).

Another variable that is being considered is this study is the adoption of English language as an external financial reporting language for foreign users as majority of the companies in the Gulf countries draw up their annual report using Arabic language (Kern, 2012; Ridout, 2018). An annual report drawn up in English language would provide access to disclosure for foreign investors who are not proficient in the local language and consequently minimize the asymmetries in information between both foreign and local investors.

Many previous studies that have examined variables such as size, independence of BOD and AC; audit quality; firm performance; family ownership; local institutional investors and the adoption of English language as an external financial reporting have examined their relationships and effects on the FSO (Bokpin, Isshaq & Nyarko, 2009; Bowman & Min, 2012; Jeanjean et al., 2014; Mangena & Tauringana, 2007; Miletkov et al., 2014; Min & Bowman, 2015). However, the financial expertise, frequency meetings and the effectiveness of both the BOD and AC characteristics are considered in this

study as new variables that have not been studied before with respect to their effects with FSO.

This study aims fill the gap by examining the effects of the financial expertise of directors serving on both the BOD and AC and their meetings on FSO, in the non-financial listed firms in the GCC Stock Markets, as new independent variables. It important to examine the effect of financial expertise on FSO as foreign investors are more attracted to companies with high financial reporting quality, and studies have shown that the financial expertise is associated with high financial reporting quality (Agrawal & Chadha, 2005; Jeanjean &Stolowy, 2009; Lanfranconi & Robertson, 2002; Minton, Taillard, & Williamson, 2014; Mustafa & Ben Youssef, 2010). Likewise, the frequency of board meeting is equally important for high-quality financial reporting (Hsu & Petchsakulwong, 2010; Vafeas, 1999).

With respect to the contributions of this current study to the literature, this study also aims to fill a gap by investigating whether the effectiveness of the BOD and AC is correlated with FSO in the listed non-financial companies in the stock markets of GCC, as new variables. This study was motivated by Agrawal and Knoeber (1996) Al-Rassas and Kamardin (2016), Cai, Qian, and Liu (2009) and Eyenubo et al. (2017), who argued that using an individual measurement for governance mechanism might not reflect the effectiveness of the governance structure compared to using a composite measurement of the governance mechanism. This is based on the fact that internal governance mechanisms complement each other, where the effectiveness of a particular mechanism may depend on the effectiveness of others (Rediker & Seth, 1995; Davis & Useem, 2002). Therefore, this study contributes to the literature by examining the effectiveness

of both the corporate boards and audit committee using a composite measurement as a bundle on attracting foreign ownership.

More specifically, this study focuses on the four main internal monitoring characteristics of the board of directors as well as audit committee, namely, independence, size, frequency of meetings and financial expertise, which effectively capture the board of directors and audit committee as monitoring devices. The components of these characteristics are constructed as a score to reflect the effectiveness of the board of directors and the audit committee. These characteristics complement each other. For example, independent directors without financial expertise might not understand accounting numbers (Agrawal & Chadha, 2005; Mustafa & Ben Youssef, 2010), and less frequent meetings or an inappropriate size of the board may make it difficult to monitor management and enhance the quality of financial reporting. In other words, the absence or failure of one of the board's monitoring characteristics can lead to the weakness or failure of others, which, in turn, can weaken and hinder the performance of the board of directors as an internal monitoring device(Cai, Qian, & Liu, 2015; Johl, Satirenjit, Subramaniam & Cooper, 2013).

1.3 Research Questions

This study is arranged to answer questions related to examining the influence of corporate governance mechanisms (BOD and AC characteristics include size, independence, meetings, financial expertise and their effectiveness); audit quality; ownership structure (family ownership and local institutional investors); firm performance and use of the English language in financial reporting on the FSO. Specifically, this study seeks to answer the following questions:

1. What is the relationship between corporate governance mechanisms and foreign share ownership in GCC listed companies?

2. What is the relationship between ownership structure and foreign share ownership in GCC listed companies?

3. What is the relationship between firm performance (Tobin`s Q) and foreign share ownership in GCC listed companies?

4. What is the relationship between the adoption of the English language to report financial reporting and foreign share ownership in GCC listed companies?

1.4 Research Objectives

The main objectives of the study are to identify the determinants of foreign share ownership. Specifically, this study is conducted to fulfil the following objectives:

1. To examine the relationship between corporate governance mechanism and foreign share ownership in GCC listed companies;

2. To examine the relationship between ownership structure and foreign share ownership in GCC listed companies;

3. To examine the relationship between firm performance (Tobin`s Q) and foreign share ownership in GCC listed companies; and

4. To examine the relationship between the adoption of the English language to report financial reporting and foreign share ownership in GCC listed companies.

1.5 Significance of the Study

There are several significant aspects that have encouraged the researcher to conduct this study. First, FSO and its determinants have been identified as being an important

research area and have attracted empirical researchers. In addition, the study of determinants of FSO is still in its early stages and only a limited number of studies have been conducted in addressing this important issue (Bokpin & Isshaq, 2015; Bokpin & Isshaq, 2009; Dahlquist & Robertsson, 2001; Haldar & Rao, 2012; Kang, 1997; Kim, Kim & Byun, 2010; Klapper & Love. 2004; Leuz, Lins, & Warnock, 2010; Mangena & Tauringana, 2007; Miletkov et al., 2014; Min & Bowman, 2015; Suwaidan et al., 2013).

Although previous studies have provided theoretical explanations and empirical evidence of the association between board and audit committee characteristics, and ownership structure with FSO, the studies have provided limited and inconclusive results (e.g., Bokpin & Isshaq, 2009; Mangena & Tauringana, 2007; Miletkov et al., 2014; Suwaidan, Abed, & Al-Khoury, 2013). Thus, further research is needed to examine the determinants of FSO and to explore the conditions under which these determinants would in fact lead to increase the level of FSO in the GCC stock markets.

Second, most studies in the past have investigated how corporate governance mechanisms and firm-specific variables are related to FSO in developed countries, for example, Sweden (Dahlquist & Robertsson, 2001), the United States (Miletkov et al., 2014; Klapper & Love. 2004; Kang, 1997) and the Korea (Kim, Kim & Byun, 2010; Min & Bowman, 2015). However, in developing countries, only a few studies have been conducted to examine the association between the corporate governance mechanisms and FSO, for example, in Ghana (Bokpin & Isshaq, 2009), Zimbabwe (Mangena & Tauringana, 2007) and Jordan (Suwaidan et al., 2013).

Being aware of the fact that various nations have distinctive levels at which investors are protected and different levels of enforcing legal rights and structures of ownership, the researcher deemed it appropriate to recognize these factors when analysing FSO in various nations that have distinctive social structure and economies (Miletkov et al., 2014) to provide a more meaningful FSO study. For this reason, the current study considers particular nations, such as the GCC member states that have the same culture, socio-economic, and political norms (Callen et al., 2014; Santos, 2015) to offer good insights into the connection between corporate governance and the FSO.

The third motivation is that the previous studies that have investigated the association between corporate governance variables and FSO only focused on the negative impacts of the possibility for expropriation of shareholder wealth by insiders or other groups, (Miletkov et al., 2014). This current study consider the factors that could attract foreign capital. This study extends the FSO studies by examining the relationship of the board of directors and audit committee characteristics, ownership structure, firm performance and the use of the English language in annual reports with FSO in the listed firms of the GCC countries.

Finally, this study was the first to examine the factors that might influence FSO in GCC countries. The primary attention of previous studies in GCC countries has been focused on the main players of corporate governance including the board of directors (BOD), the audit committees (AC), audit quality, and ownership structure in their relationship to firm performance and voluntary disclosure, for example studies of done in Saudi Arabia (Al-Hussain & Johnson, 2009; Ghabayen, 2012), UAE (Aljifri & Moustafa,

2007), and Bahrain (Najjar, 2012). Therefore, the significance of this study stems from the following aspects:

1.5.1 Theoretical Significance

As one of the important internal corporate governance mechanisms, this study extends FSO studies by examining the individual relationship of board of directors' characteristics (size, independence, meetings, and financial expertise) with FSO. Furthermore, this study extends prior FSO studies by examining the combined impact of board characteristics on FSO. Examining the combined impact of board characteristics in this study is because the absence or the failure of one of the board's monitoring characteristics can lead to the weakness or the failure of others, which, in turn, can weaken and hinder the performance of the board of directors as an internal monitoring device.

This study extends FSO studies by examining the individual relationship of audit committee characteristics, such as size, independence, meetings, and financial expertise and FSO. Furthermore, this study extends prior studies by examining the combined impact of audit committee characteristics on FSO. Examining the combined impact of AC characteristics in the current study is because the prior research has investigated the characteristics of AC separately rather than examining these characteristics as a bundle. These characteristics work together and reduce the measurement error (Cai et al., 2015; O'Sullivan, Percy & Stewart, 2008).

Furthermore, this study, by examining the individual relationship of the characteristics of board and the audit committee (e.g., size, independence, meetings, and financial

expertise) with FSO extends FSO studies by examining the relationship between the FSO and the financial expertise and the meetings of both the board and audit committee for several reasons. First, from the perspective of foreign investors, a need exists for higher financial reporting quality, which, in turn, suggests the need for more directors having financial expertise serving on corporate boards (Jeanjean & Stolowy, 2009). Second, directors who have financial expertise offer more benefits to investors prior to a financial crisis but are detrimental to them during a crisis (Minton, Taillard, & Williamson, 2014). Third, the financial expertise of board members must be considered because of the collapse of major companies like Enron and WorldCom was attributed to the low level of knowledge and expertise of directors (Agrawal & Chadha, 2005; Lanfranconi & Robertson, 2002). Fourth, the availability of financial expertise with a relevant company or firm is a highly significant determinant for creating investor confidence, as this expertise may provide a high level of financial reporting quality (Jeanjean &Stolowy, 2009). Fifth, the financial expertise is a complementary factor of board and AC characteristics because directors with no knowledge of financial reporting might find it difficult to comprehend the language of accounting numbers (Mustafa & Ben Youssef, 2010). Likewise, the frequency of board meeting is equally important for high-quality financial reporting (Hsu & Petchsakulwong, 2010; Vafeas, 1999).

This study extends FSO studies by examining the relationship between audit quality and FSO. Corporate governance mechanisms, like audit quality, have not been thoroughly examined (e.g., Bokpin & Isshaq, 2009; Mangena & Tauringana, 2007; Suwaidan, Abed & Al-Khoury, 2013). Therefore, they recommended future study to

further explore the association between other corporate governance mechanisms such as audit quality and FSO in developing countries.

Ownership structure has been identified as a central determinant of FSO (Miletkov et al., 2014). However, empirical studies that have investigated the association of the ownership structure with FSO within the domain of an emerging country are limited. Little attention has been given to the association of the structure of ownership with FSO, particularly with respect to FSO in GCC member states. Therefore, the current study attempts to extend the FSO literature by examining the relationship between ownership structure (e.g., family and local institutional ownership) and FSO by paying attention to the business environs of the GCC member countries and the particular type of ownership structure.

The current study contributes to the existing body of FSO literature by examining the relationship firm performance and FSO. It important to examine the effect of firm performance on FSO because the firm performance is very important to investors especially when it impacts returns on investment directly, and investors seek to increase their wealth (Appuhami, 2007). However, providing evidence about the effect of firm performance on FSO in the GCC is needed due to the high fluctuation of firm performance in the stock markets of the GCC.

Finally, this study extends the FSO studies by examining the relationship of the adoption of the English language in financial reporting and FSO because of the majority of the companies in the Gulf countries draw their annual report using the Arabic

language (Kern, 2012). According to Jeanjean et al. (2014) language is a measure that could diminish the information-processing costs faced by foreign investors.

Overall, this current study can contribute novel insights to the existing body of literature by determining the factors affecting FSO. Therefore, this present study attempts to fill this gap in literature by focusing on the impacts of the above-listed variables on FSO in the non-financial listed companies in the stock markets of GCC. In doing so, this study constitutes a further contribution to FSO studies and narrows the gap in the accounting literature.

1.5.2 Practical Significance

In many ways, this research makes a practical contribution with reference to the determinants of FSO in listed companies of GCC stock markets. First, the practical significance of this study is that it will assist GCC-listed companies to understand the determinants that could attract foreign investors. These determinants are the characteristics of board and audit committee, audit quality, ownership structure, firm performance and the use English language in annual reports that affect the foreign ownership. So, this study provides empirical insights about the factors affecting FSO in the GCC listed companies. Therefore, the findings of this study are useful to regulators and policy makers in the stock markets of GCC countries by encouraging them to monitor the characteristics of the board and audit committee that affect the level of the foreign ownership in its quest to improve the quality, transparency and accountability of the corporate yearly reports of the list of companies in the GCC member states. The outputs of this research also enrich policymakers in GCC in gaining

a better understanding of the effect of family ownership on foreign ownership, and then in inspiring them to create mechanism to protect the interests of foreign investors.

Second, corporate governance has been known in the Arab world for 13 years now (Saidi, 2011). Therefore, the results obtained from this research will also provide a guide to the regulators in deciding policies with respect to corporate governance issues, which, in turn, will decide the trend of governance policies for GCC listed companies in the future.

Third, the study examines the different areas of the systems of corporate governance with respect to the various forms of ownership structure, firm performance and the use English language in annual reports by examining them to the level FSO. The results obtained from this examination will serve as a guide to foreign investors about the determinants that will protect their interests, especially in an environment in which legal protection and law enforcement is low.

Fourth, this study serves as a base for any future study about FSO in GCC countries. Future research can build on the findings of this study and identify more factors affecting FSO that are applicable to GCC-listed companies.

1.6 Scope of Study

The sample of this study is public non-financial companies listed on the stock markets of GCC countries as an emerging market. For the purpose of the study objectives, data were retrieved from the Saudi Stock Exchange (Tadawul), Qatar Stock Exchange (DSM), Abu Dhabi Stock Exchange (ADX) Dubai Financial market (DFM), Muscat

Stock Exchange (MSM) and Bahrain Stock Exchange (BB). The data relating to the economic variables were obtained from the World Bank database, whereas, the data of political risk variable data were collected from the Political Risk Services (PRS) group's database.

This study used panel data analysis based on the Breusch–Pagan-Lagrangian-Multiplier examination that showed that panel data analysis is more appropriate than the pooled OLS regression. This study was built on a fixed effect model based on the Hausman test; the results show that fixed effect analysis is more appropriate than random effect analysis. This study is conducted over the period of 2012-2015 for 192 non-financial listed companies that have foreign share ownership and firms without foreign share ownership on GCC stock markets with 768 observations (568 firms with FSO and 200 without FSO as a control group companies).

The period of the study is conducted for four years from 2012 to 2015, due to the following reasons. First the last issuance of a corporate governance code was in 2010 in Bahrain, which took effect on the first of January 2011. Second, the period was after the Arabic spring in 2011. This study excludes Kuwait because of Kuwait did not has an effective code of corporate governance until 2014. That means that the data of listed companies in the stock market of Kuwait could not be enough because of the study period.

1.7 Organization of study

This research comprises six chapters. The first chapter deals with the background of the study, the problem statement, research questions, research objectives, study significance and scope of the study. The rest of the chapters are organized as follows.

Chapter Two presents an overview of the GCC countries. The third chapter reviews the literature of the dependent variable foreign share ownership, and presents a thorough review of the literature relevant to the independent variables such as BOD characteristics (size, independence, meeting, financial expertise, effectiveness), AC characteristics (size, independence, meetings, financial expertise, effectiveness), audit quality, performance (Tobin`s Q), family ownership, local institutional Investors, and the use English language for financial statements and their effect on FSO, as well as control variables. Chapter three also provides a discussion of the underpinning theories, namely, agency and signalling theories.

Chapter four presents the research framework and methodology, hypotheses development, research design, research sample, method of data collection, data analyses and variable measurements. Then, Chapter five presents the results and discussion and Chapter six presents the conclusion and recommendation.

1.8 Summary

Chapter One explained the background of the study and presents the problem statement; in addition, it presents the research questions, research objectives, significance of the study, scope and the organization of the study. FSO is the dependent variable while the independent variables are the BOD characteristics (size, independence, meeting,

financial expertise, effectiveness), AC characteristics (size, independence, meetings, financial expertise, effectiveness), audit quality, performance (Tobin`s Q), family ownership, local institutional Investors, and the availability of English financial statements. The control variables are firm size, leverage, political risks, exchange rate, inflation risk and economic growth (GDP). In the following chapter, the overview of the GCC is described.

CHAPTER TWO

OVERVIEW OF BACKGROUND, CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE OF GCC

2.0 Introduction

This chapter describes the general situation in Gulf Co-operation Council (GCC). GCC countries represents the six oil-based Arab members of Saudi Arabia, Bahrain, Kuwait, Qatar, Oman, and United Arab Emirates. There are a paucity of research exists about GCC markets. Reasons for the lack of concern about these markets stem from the restrictions imposed into the foreign stock ownership, the lack of common accounting, the practise of corporate governance codes and the uncertainty of economic and political conditions. In the meantime, the GCC have approved and developed a large scale of economic and market strategies and policies that transit them to market orientated economies (Al-Shammari*et al.*, 2008).

These most important policies and strategies include permitting a 49% foreign ownership, accelerating reforms in all aspects of life, increasing privatization programs, strengthen GCC corporate sector and improving the accounting and practise of corporate governance regulations. Immediately after these developments, GCC region is found to be a profitable business environment for local, regional, and foreign investors (Santos, 2015).

The focus of this chapter two is centered on three topics. First, the Chapter considers the background of GCC countries in **Section 2.1**. Second, corporate governance in GCC in **Section 2.2**. Third, ownership structure in GCC in **Section 2.3**.

2.1 Background of GCC

The GCC, referring to the Gulf Cooperation Council comprises six Arab states namely United Arab Emirates, Bahrain, Oman, Saudi Arabia, Kuwait, and Qatar. These states were founded in 1981 with the objective of regional development and economic cooperation among the members as a regional trade centre (Abdul-Gader, 1997; Sturm, Strasky, Adolf, & Peschel, 2008). The relationship among these GCC countries with respect to social, economic, politics and culture are deemed to be similar to a larger degree compared to the dissimilarities of other developed countries. Moreover, the major spoken and written language in the GCC countries are Arabic language while the official religion is Islam indicating that the majority of residents are Muslims (Central Department of Statistics and Information, 2014). All these six GCC countries are governed by royal families, for example the al Saud family governed the Saudi Arabia, Al-Said family in Oman, Al Khalifa family in Bahrain, Al Nahyan family in United Arab Emirates, Al Thani family in Qatar and al-Sabah family in Kuwait. There are also similarities among these six in terms of geography, cultural and political relations, language, high living standards and coordinated policies. Considering the above similarities, the GCC countries are deemed to be a homogenous block of countries.

In 1938 was a remarkable year for the GCC countries as they discovered oil reserves which boosted its economies and accelerated the GCC modernization. Since then, the government of GCC states and members of the society in general placed priority on having high standards of living and modern lifestyles (Bowen, 2014; Ochsenwald & Fisher, 2010). GCC countries are largely dependent on gas and oil exports for their budgets and their currencies and price levels are stable. Due to the increasing demand of oil and gas, the GCC countries have rapidly become the largest economy in the Middle East, for example, the Saudi Kingdom's economy comprises more than 25% of

the total GDP of the Arab world (Ministry of Commerce and Investment, 2015), and ranked as the biggest exporter of petroleum having 18% reserves of the world's petroleum (OPEC, 2016). GCC countries are characterized as having a moderate-high level of fiscal development, and they occupy the highest position of MENA (Middle East and North-African region) countries with regards to regulations, supervision, and financial openness (Creane, 2004).

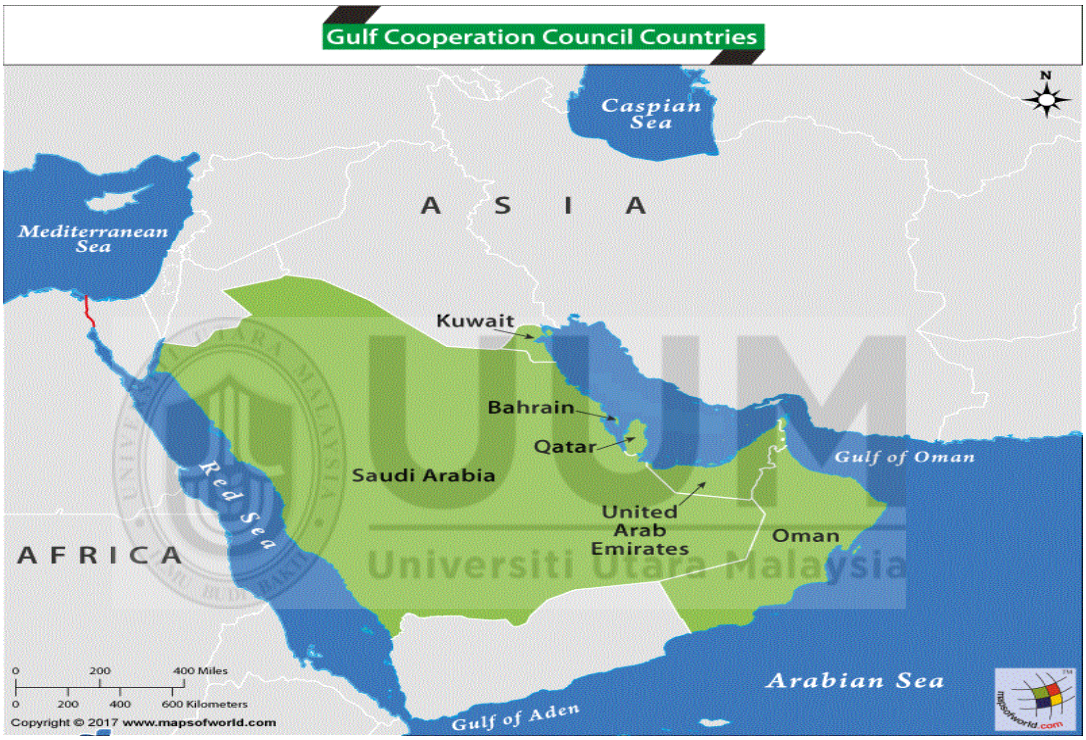

Figure 1.2.
Map of Gulf Cooperation Council Countries.

2.1.1 Culture, Religion and Customs of Gulf Cooperation Council Countries

An effective corporate governance framework is based on honesty and trust (OECD, 2004). These elements are impacted by the religious and cultural features present in societies, and this dimension in the GCC is Islamic. In regard to this, Baydoun et al. (2012) contended that Islam as employed in business transactions and processes is aligned with corporate governance. They conducted a comparison between the philosophies of Organization for Economic Co-operation and Development (OECD)

corporate governance with those of Islam and confirmed their compatibility (OECD, 1999). Generally speaking, Islam does not distinguish between religious and secular affairs (Baydoun et al., 2012; Williams, 2008). Therefore, the logical assumption is that voluntary ethical limitations coupled with societal pressure and retribution would bring about ethical behaviour.

In the GCC, Islamic Shariah law provides a platform for codes of conduct that shows the religious and cultural features of the countries in the region (Baydoun et al., 2012). In other words, the values of integrity, honesty, justice and trust are fundamental to the moral behaviour established in Islam (Shariah) as well as in corporate governance (Gambling & Karim, 1991; Tan, 2006; Taylor, 2008). Evidence from an empirical study employing a survey revealed that dynamic economic behaviour, opinions and business values are not as important when expounding on the differences in the application of accounting information (by Muslims or non-Muslims) (Sulaiman, 2001). However, while these findings are interesting, the survey instruments were unable to determine subtle differences in cultural and religious differences or the general acknowledgement of capitalism as the predominant premise of business workings in today's era (Lantz & Sahut, 2009).

In conclusion, this sections provides overview about the environmental culture in Muslim region such as GCC countries, in which Islam encourages people to be honest and just in business transactions and processes that is aligned with corporate governance in which honesty and trust are key ingredients of an effective governance framework (Baydoun et al., 2012).

2.1.2 Gross Domestic Product (GDP) of Gulf Cooperation Council Countries

In 2014, the GCC region was predicted to display GDP growth of about 3.4% in 2015, after which was projected to decline to about 3.2% in 2016. In the GCC region, countries depend on oil and gas as growth drivers, and, when oil and gas prices decrease, these drivers become a major cause of the concomitant decrease in GDP growth as oil and gas generate the most revenues in the region, in which non-oil diversification remains in its infancy (GulfBase, 2015). Despite this dependence, the GCC remains the major driver of development in the Middle East and North Africa (MENA) region, with their growth rate higher than those of the other MENA economies (KAMCO Investment Research, 2015).

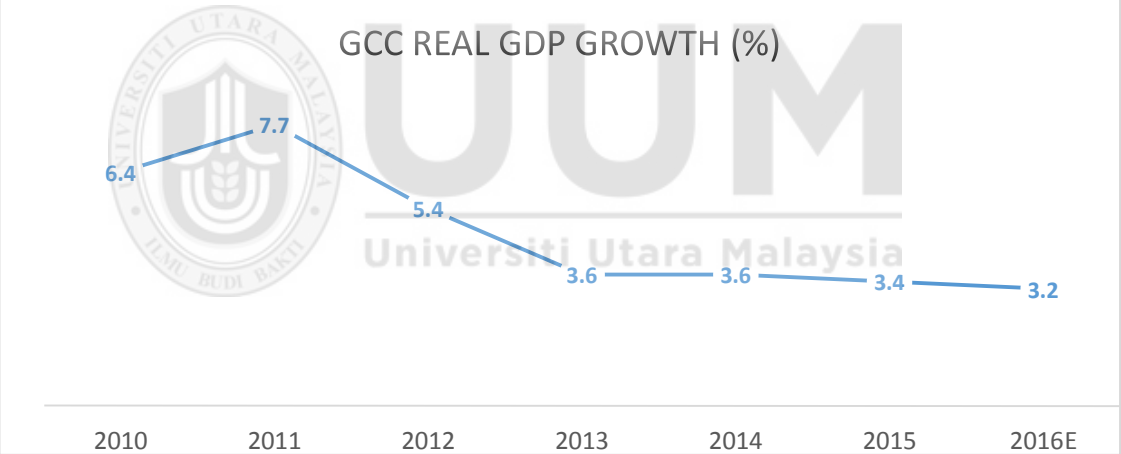

Figure 2.2.
GCC Real GDP growth (%).
Source: KAMCO Investment Research.

The decline in revenue from oil and gas exports was predicted to greatly lessen the present account balances in the GCC, projecting to show decline from U.S.$271.8 billion (16.5% of GDP) in 2014 to U.S.$40.2 billion (2.8% of GDP) in 2016. Individual GCC countries of Kingdom of Saudi Arabia, Oman and Bahrain were predicted to report current account deficits in 2015 (GulfBase, 2015). Moreover, the GCC financial

balance was predicted to be negative in 2015 and these negative financial balances were predicted to increase in 2016.

The levels of debt are also expected to show significant growth, particularly in the largest economies of the GCC. In the context of Saudi Arabia, a marginal increase in debt levels was recorded at 1.8% of GDP in 2015 compared to 1.6% of GDP in 2014. However, this was still insignificant in comparison to the historical levels and other GCC and global economies. Bahrain had the highest level of debt at 54% of GDP, while Qatar was second at 28.9% of GDP, largely because of its spending plans for infrastructure development (Gulf Base, 2015).

In the context of Saudi Arabia, real GDP growth increased to 3.5% in 2014 from 2.75% in 2013 against the background of a high record of oil manufacturing, a dynamic private sector (+5.6%), and the growth of public sector at 3.7%. The oil price rout that began in late 2014 and continued into 2015 produced a significant effect on the finances of the country. In 2015, the GDP growth was predicted to come down to 2.8% and in 2016 to 2.4%. At the same time, the non-oil private sector and public sector were predicted to be affected by the oil spending. The oil sector contribution to GDP dipped in 2014 and was expected to further show a fall in 2015 (GulfBase, 2015).

The economic strength of Kingdom of Saudi Arabia (KSA) has been tested by cheap oil. By 2016, the government had strengthened fiscal consolidation policies and established major reform programs to tackle the increasing challenges created by the downward fluctuation of the oil markets. With the advancement in the fiscal strengthening efforts, enhancements of medium fiscal positions were achieved at the

expense of, which mostly depends on public expenditures. Reduced oil prices challenge growth and fiscal viability in the KSA. Because 80% of the fiscal proceeds and more than 40% of GDP are accounted for by hydrocarbons, the KSA remains susceptible to price fluctuations (GulfBase, 2015; World Bank, 2017).

The continued reduction in the growth of KSA economy was anticipated for 2017. The hydrocarbon sector growth was expected to decline in accordance with current OPEC production limits. The daily oil production was decreased to 9.8 million barrels in January 2017, which is at par with the production level prior to the fall in the price of oil in 2014. Nevertheless, because the 2017 fiscal budget alleviated the situation, the non-oil economy was projected to recover and record a growth rate of 2.1% in 2017. Generally, the growth of GDP was anticipated to be 0.6% during 2017. The current account figure is anticipated to continue in deficit with a GDP of 4.0% in 2017. The annual export price of hydrocarbons was projected to grow in 2017 and 2018. With gradual improvement in these exports, a small surplus in current accounts has been projected from 2018 onwards (World Bank, 2017).

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With respect to the United Arab Emirates, efforts towards diversification in recent years have begun to achieve results with the growth rates in GDP of 3.6% in 2014 and 3.2% in 2015. Severe swings in real estate prices are expected to be under control with added regulations passed to prevent unexpected results. The growth of GDP in the country is expected to be more driven by the non-oil sector in the future, and the non-oil sector comprised 68% of GDP in 2014. The government's desire for a rate of growth of 4% for 2017 was unachievable because of low and inadequate bank liquidity growth and the OPEC directive to reduce oil production. As a result, the World Bank estimated that

GDP growth would be 2% in 2017 (World Bank, 2017). However, if oil prices continue thee upward spiral that began in May of 2016 and revenue increases and investments in non-oil sectors rise in advance of Dubai's Expo 2020, growth is likely to start improving. However, a sluggish global economy and the constriction of regional liquidity could pose risks for the future. Projections indicate a growth rate of 3.2% is expected in 2019 (World Bank, 2017).

The economy of Qatar reported a double-digit growth until 2011 against the background of increased growth of gas production and exports, which led to the doubling of nominal GDP from 2009-2013. Growth slowed to 6.0% in 2012, and increased to 6.3% in 2013, as the North Field development resulted in stable gas production volumes and proceeds, even as oil exports dipped owing on the global demand and increased non-OPEC production. In this scenario, GDP growth was expected to accelerate to 7.1% in 2015 and decrease to 6.5% in 2016 along with a double-digit growth in non-hydrocarbon sector (KAMCO Investment Research, 2015). Qatar is presently in the middle years of a US$200 billion infrastructure transformation in advance of hosting the World Cup, which would support and facilitate many activities, predominantly in construction, transport and other services. The Barzan gas project with the capacity of 1.4 billion cubic feet production volume daily, the last project authorized prior to the North Field suspension, has been delayed. When completed, this is expected to boost growth to the tune of 3.3% and assist in balancing some of the projected production shortfall in natural gas productivity for some few years ahead. As the FIFA related investment has started to gain high momentum, and growth is anticipated to steadily stabilize to about 2.5% in 2019 (KAMCO Investment Research, 2015; GulfBase, 2015; World Bank, 2017).

The precipitous decrease in oil prices from June 2014 to January 2016, which saw the price of oil decline from USD111.48 to USD 30.12 created persistent affects for the economy of Oman. Additionally, 2017 OPEC agreement to reduce oil production and the current government devotion towards austerity will possibly further dampen growth. The fiscal and current account shortfalls remain obviously high, and the country has had to resort to foreign loans to finance her lingering shortfalls. However, with the Oman's commitment to economic diversification in the tourism and fishery sectors, it is expected that growth will start improving in 2018.

The rate of GDP growth in Oman dipped to 2.9% in 2014, in comparison to 4.7% in 2013, with an expected rebound to 4.5% in 2015, and a decline to 3.1% in 2016. The IMF predicted that according to the recent spending rates of Oman, the country will exhaust her financial reserves before the year 2020 comes around if the government debt remains at 25% of GDP. The fall in oil prices has significantly influenced the country's investment plans and, in turn, growth in the non-oil sector. Conversely, the growth rate of total real GDP in 2017 was anticipated to decline less than 1% due to the OPEC agreement mandating that all oil producing countries decrease oil production till June 2017. The diminishing effects of government expenditure, reductions in business attitude and the diminution of private consumption have also produced adverse effects. The 2017 budget plan was to reduce expenditures by 8% resulting to a budget shortfall of 10.6% of GDP (KAMCO Investment Research, 2015; GulfBase, 2015; World Bank, 2017).

Lastly, in Bahrain, the rate of growth remains slow and the fiscal shortfall continues to widen. Regardless of the current fiscal consolidation polices, Bahrain remains the

weakest GCC country. It produced the lowest number of hydrocarbons among GCC states, and low prices of oil and bauxite, her inadequate savings and high rate of debts have exposed the country to increased financing risks. Since 2009, Bahrain has sustained a decreased fiscal position, thus leading to overall government deficits. The condition became worse by 2015 thru the decrease in oil proceeds by approximately 10% of GDP and the overall fiscal shortfall estimated at 12.8% of GDP.

This deficit spending to keep economic growth at 2.9%, then degraded the reserves to 2.6% of imports and raised the public debt to about 62% of GDP. Economic growth was projected to fall, and the real GDP growth predictions have been reviewed downwardly to 1.9% between 2017 and 2018 as the persistence decrease in oil prices dampened economy at large and the government expenditure at large. Some existing infrastructural investments might be suspended as a result. In the presence of insignificant fiscal modifications, Bahrain seems to remain susceptible to fiscal risks in the short term (KAMCO Investment Research, 2015 & GulfBase, 2015; World Bank, 2017).

From the above discussion, GCC countries have stable economic conditions which, in turn, should be considered as profitable area for foreign investment. On the other hand, an increase in GDP growth would have a positive effect on attracting foreign investors. Here it is argued that growth in income has a significant outcome in the shape of saving that is the counter cyclical response of capital flows. When an economy is rising, then workers should expect an increase in income and if, as a result, consumption increases then procyclical capital flows increase. Financial flows have a procyclical relationship to the host country GDP growth rate for developing countries (Waqas et al., 2015).

2.1.3 Inflation in the GCC

The rate of inflation remained less than 3% although the liquidity levels have increased with the housing and food prices remaining low (KAMCO Investment Research, 2015). According to KAMCO Investment Research (2015) and GulfBase (2015) the majority of the GCC currencies are pegged to US dollars and the strong exchange rate of the USD against major currencies from 2015 to 2017 established a virtual cover for inflation figures. Added to this, because the prices of fuel are maintained by government, the rate of inflation is not predicted to show a steep decrease even with the decrease in the prices of oil. Moreover, the money supply increased from U.S. $1.26 trillion in the fourth quarter of 2014, to U.S. $1.31 trillion in the second quarter of 2015, with the central banks maintaining their low rates of interest, resulting in higher private lending and higher levels of consumption (KAMCO Investment Research, 2015).

The rates of inflation have varied for the members of the GCC. In the case of Saudi Arabia, the inflation rate was reported at 1.27% in 2015, 2.03% in 2016, -.85 in 2017 and projected to be 3.74% in 2018. (KAMCO Investment Research, 2015; Statistics; 2018; World Bank, 2017). Meanwhile, in the UAE, inflation rates were 4.07% in 2015, 1.62% in 2016, and 1.7% in 2017, and projected to be 4.17% in 2018. In Qatar, the inflation rate was 1.81% in 2015, 2.68% in 2016, .39% in 2017, and was projected to be 3.91% in 2018. Moving on to Bahrain, the rate of inflation was 1.84% in 2015, 2.8% in 2016, and 1.39% in 2017 and was projected to be 2.86% in 2018. (KAMCO Investment Research, 2015; GulfBase, 2015; World Bank, 2017). Lastly, in Oman, the inflation rate was .07% in 2015, 1.1% in 2016, and 1.6% in 2017, and was projected to be 2.5% in 2018 (KAMCO Investment Research, 2015; World Bank, 2017).

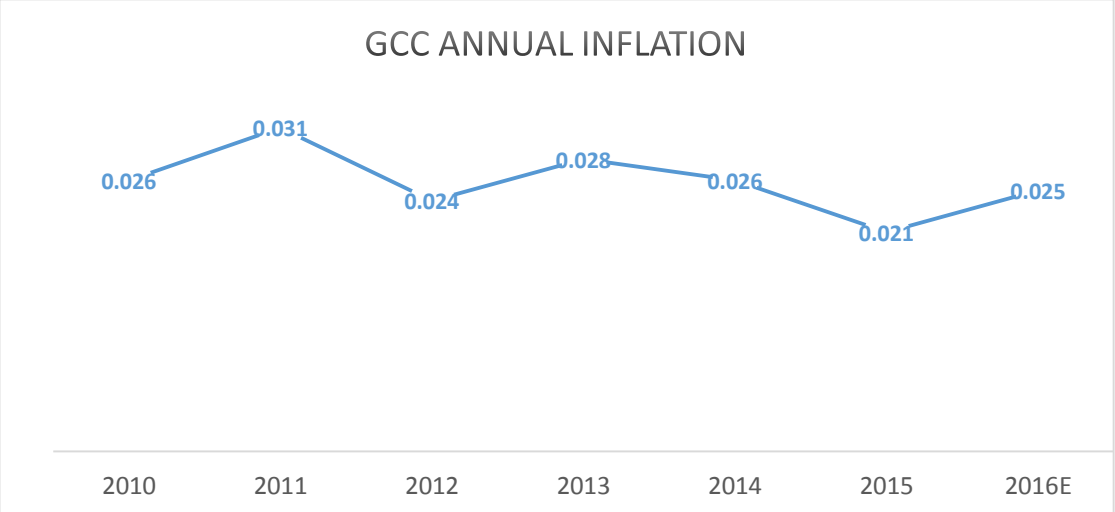

Figure 2.3.
Mean GCC Annual Inflation (%) of GCC Countries.
Source: KAMCO Investment Research.

From the above discussion, GCC countries have low inflation rate. Where, the high inflation affects an investor's expected rate of return negatively, and an inflation rate that is higher the than interest rate reduces the benefits of a portfolio investment to foreigners and, as a result, foreign investors are more likely to leave a country that has a high inflation rate. On the other hand, an increase inflation would have a positive effect on perceived corruption (Waqas et al., 2015).

2.1.4 Corporate Finance Global Business and Capital Markets

The Gulf countries have experienced immense economic growth in the past twenty years. Wealth accumulated from the oil resources exploits has paved the way for new investments financed by improved savings. The resultant inflow of capital into the banking sector and institutions has resulted to requests by investors and lenders to improve corporate governance standards (Baydoun et al., 2012; Hussain & Mallin, 2002; Joshi & Wakil, 2004; Saidi, 2011; Shehata, 2015). In addition, seeking foreign capital for financing growth and taking advantage of the business globalization has been

deemed necessary. Related with this is the pursuit toward becoming a regional centre for commerce and finance and World Trade Organization (WTO) members. The regulatory agencies of the countries in conjunction with foreign bodies have subsequently agreed upon devising new monitoring frameworks to enhance corporate governance (Saidi, 2011; Shehata, 2015).

In the UAE, the Dubai International Financial Centre (DIFC) set up Hawkamah: The Institute for Corporate Governance in 2006 in conjunction with the International Monetary Fund to assist the countries and companies of the region to develop sound and globally well integrated CG frameworks (Baydoun et al., 2012). The governments of the GCC countries have encouraged the private sector to play a more formidable role in contributing to economic development and have established privatization plans. Good corporate governance was seen as a necessary requirement to boost the impact of private sector in economic development and draw the attention of foreign investments (Baydoun et al., 2012). As Shehata (2015) argued, standards of corporate governance, including transparency, accountability, and responsibility, were crucial to achieving the modernization of the MENA countries.

2.2 Corporate Governance in Gulf Cooperation Council Countries

According to OECD (2011), the development of the GCC stock markets and the attraction of more capital from foreign investors are among the motivations behind the desire to making to these markets consistent with global standards. Among these developments are issues aligned with implementing corporate governance best practices. GCC countries are desirous of liberalizing and expanding their economies and markets with a view to attract international capital flows. As Shehata (2015) argued,

good corporate governance was needed in the GCC to privatize, liberalize, and broaden the financial markets and to increase investments. The attainment of these goals and the capability to maintain them will require that regulators create well-governed financial markets. This is because that an important consideration from the point of view of investors, is that visible motion towards a course of action that would bring about security and improvement in the GCC's corporate governance framework. This would contribute to building confidence among investors (Saidi, 2011). Thus, corporate best governance practices play a vital role in attracting foreign investors to the stock markets of GCC as long as corporate governance illustrates the efficiency and credibility of stock exchange markets (Baydoun et al., 2012).

Khamis, Semlali, Sensenbrenner, Kumah, Hasan and Prasad (2010) point to the role and value of governance mechanisms if the objective is to strengthen the efficient operation of the market and protect the interests of shareholders. According to the GCC Board Directors Institute (2011), the financial crisis of 2008-2009 pointed to the need for GCC companies to focus on adopting better corporate governance practices. Such a move was seen as necessary to rebuild trust and help to maintain confidence from periods of crises to recovery and economic booms. Companies should display a strong commitment to secure shareholder value by prompt and transparent disclosure of financial and non-financial data.

Business leaders and policy-makers alike view that rational corporate governance can be a source of value. From the perspective of policy makers, sound governance practices are important for two reasons. First, rational corporate governance can be a source of competitive benefits for companies and enhance the efficiency of the market.

Second, GCC firms can have a crucial role in instilling a culture of good corporate governance, which is vital for private sector development in the region because most companies are non-listed and family-owned enterprises (Saidi, 2011).

Several elements control the enforcement of the practices of corporate governance codes in the context of the GCC countries. First are the regulators of capital market utilizing price corrections in GCC stock markets in the hope of upgrading corporate governance frameworks. Second is public pressure for intervention owing to the prior widespread public contributions to IPOs (Saidi, 2011).

2.2.1 Codes of Corporate Governance in the GCC

Corporate governance is the system of rules, practices and processes by which a firm is directed and controlled, and codes of corporate governance are primary instruments of establishing and sustaining the confidence of the public and investors on a global scale and promoting effective management. This is because effective corporate governance works to attract investors, to protect them and other stakeholders and to improve the value of a company. Additionally, good corporate governance works is tied to the principles of integrity and transparency (Davies Schlitzer, 2008).

As corporate scandals rippled across the world from 2000 to 2010, attention turned to weak corporate governance as a concern. Among the issues related to systemic problems in developing countries were: weak legal controls, government intervention, high ownership concentration, closely held companies, and poor performance (Shehata, 2015).

As a result of the desire to expand the marketplace, all GCC states have instituted a corporate governance system either through a code or a law. The Omani code of corporate governance was the first to be issued in the region in 2002, and was amended and replaced in 2003 (Shehata, 2015). In 2006, the Saudi Arabian Capital Market Authority, which was amended in 2009. Efforts towards developing corporate governance codes in the UAE date back to 2004, when drafts were released by the Abu Dhabi Securities Market, and were then refined in 2005 (Shehata, 2015). In 2006, The Emirates Securities and Commodities Authority drafted the corporate governance code that was released in 2007 (Shehata, 2015). The Emirates Securities and Commodities Authority issued the most recent corporate governance code in 2009, which replaced the 2007 code (Shehata, 2015).

In developing these codes, international organizations such as the OCED aided the GCC states. The OECD supported the MENA initiatives for the development of public governance and investment through a programme started in 2003. The MENA–OECD programme (OECD, 2004) sponsored development reforms to enhance the investment climate, to modernize governance structures and operations, to strengthen regional and international partnerships and to promote sustainable economic growth throughout the MENA region (www.oecd.org/mena). In 2005, according to Tricker (2009), the OECD recommended

> *"The adoption of rules-based corporate governance because of the state of financial markets, the lack of experience, and poor corporate discipline. In other words, they call(ed) for legal and regulatory control not self-control by management, shareholders, and creditors"* (p. 208).

Among the initiatives that have helped in developing GCC corporate governance codes was the Global Corporate Governance Forum (GCGF), which the World Bank and the OECD co-founded. In 2006, the Forum produced a toolkit on how to craft, develop and implement corporate governance codes that was available in the Arabic language (Shehata, 2015).

2.2.1.1 Corporate Governance in the Sultanate of Oman

The Sultanate of Oman was the pioneering country in Gulf Cooperation Council region, when the Omani Capital Market Authority issued a corporate governance code in 2002 (Shehata, 2015). Within the Omani environment, the code of corporate governance concept is clear in developing an effective role and an efficient entity of the capital market. Through the current regulations and laws, the code stresses disclosure, transparency in accounting processes and financial audit and ensures that governance helps to achieve several benefits including economic development and reduced fraud and corruption (Dry, 2003).

The responsibilities of the Omani Capital Market Authority (CMA) include regulating the capital market and insurance sectors through organizing, licensing and monitoring the issue and trading of Securities and licensing entities that the CMA regulates. The CMA supervises the Muscat Securities Market, public joint stock companies listed on the Muscat Securities Market, and investment funds, among others (Capital Market Authority, 2018).

Among their functions is enforcing the Code of Corporate Governance. The CMA describes corporate governance as

> *"A set of laws, regulation and decisions with the aim of achieving quality and excellence in the performance through efficient ways to attain the company objectives. In other words, corporate governance is the systems governing the relationship between the main parties that influence the performance they include methods for strengthening the organization focusing on the relationship between the directors, employees, shareholders and stakeholders as well as regulators and the way they interact in the supervision and management of the company with integrity and accountability"* (Capital Market Authority, 2018).

The corporate code is designed to minimize conflicts of interest and to enhance economic efficiency, including associations between a company's management, their shareholders and investors. The commitment of Omani companies to the principles of the code is exhibited through their formation of a governing council and in controlling their auditing and internal mechanisms. In doing, they achieve the governance criteria for transparency and responsibility, which results in the necessary data and information in their company's financial statements, upon which parties dealing with the company for their decision-making processes depend (Capital Market Authority, 2018).

After the Omani Capital market adapted the code of corporate governance, the Oman Capital market attempted to attract foreign investors through several crucial investment policies, which are as follows. These included:

1. No taxes exist on the capital gains;
2. No limits exist on the transfer of capital or interests;
3. No limits exist on exchange operations;
4. Exchange rates are fixed in relationship to the USD;

5. Lower taxes on firms and exemptions are designed to be rewarding and long-lasting;
6. International investors have allowed to invest in the stocks of listed companies on the stock market without any previous permission; and
7. An independent supervisory body ensures that justice and stability in the market and defends the rights of investors and ensure the best possible disclosure and transparency.

In addition to the above, according to report of GulfBase (2015), the Sultanate of Oman enjoys several investment advantages,

1. The Sultanate applies a free economic system;
2. The country enjoys stability in economics and politics;
3. The ownership percentage of foreigners can be up to 100%;
4. No restrictions exist on the transfer of capital and interests overseas;
5. A low personal income tax rate;
6. Soft loans with low interest rates and convenience settlement periods; and
7. Tax is exempting for companies for up to 10 years.

2.2.1.2 The Kingdom of Saudi Arabia

The Capital Market Authority issued a corporate governance code on November 12, 2006 on the basis of the Regulations of Capital Market Law, which was promulgated by Royal Decree No. M/30 on 1 January 1996 and changed by Capital Market Regulations Number 1 -10-2010 on March 16, 2010. Although the new guidelines enhanced the framework of corporate governance in the country, compliance with the code, no time limit for consistency has been determined.

Over time, corporate governance has been received considerable backup from the government of Saudi Arabia and academics. Currently, corporate governance is a top subject in the environment of Saudi businesses and a debate concerning the improvement of the system of governance have come into the limelight. Corporate governance mechanisms in Saudi Arabia encapsulate rules and standards concerning shareholders' rights, disclosure, transparency, and composition of the board, which facilitates the regulation of the management of joint stock companies that are listed on the Saudi Stock Exchange. This guarantees adherence with best practices protecting investors and stakeholders' rights (Corporate Governance Regulations in the Kingdom of Saudi Arabia, 2006). The main laws that govern the legal framework that influence corporate governance in the Kingdom may be categorized into three: 1) the system of company law stemming from British Law of Companies, 2) the Saudi institutions for Qualified Accountants and 3) the Capital Market Authority of Saudi (Shehata, 2015).

The Capital Market Authority Board established corporate governance in 2006 and made amendments in 2009 in an attempt to regulate and enhance the Saudi capital market and reinforce financial reporting authenticity and transparency. The code remained guidelines until the beginning of 2010 when they became a mandatory regulation. During this time, Saudi listed firms were mandated to use the reveal or otherwise explain rule in the annual reports and justify non-compliance (Corporate Governance Regulations in the Kingdom of Saudi Arabia, 2006; Shehata, 2015).

The most current interaction of regulations, which was issued in 2017 and amended in 2018, contains 12 parts five of which are the most pertinent to good corporate governance. One part contains preliminary provisions and explanations and definitions

of terms related to regulation (e.g., independent member, non-executive and shareholders). A second part details shareholders rights and the rights of the meeting of the Shareholders Assembly. A third parts is related to disclosure and transparency and is linked to reports of the board and the audit committee. A fourth enumerates the functions and responsibilities of the board of directions; and a fifth deals with the implementation of effective corporation governance and the formation of a corporate governance committee (Capital Market Authority, 2017).

Both the BOD and AC are deemed as the top protection against ineffective management (Shehata, 2015). The current study investigates the role of the BOD and AC as corporate governance mechanisms.

2.2.1.3 The Kingdom of Bahrain

Bahrain issued code of the corporate governance that took effect on January 1, 2011, and all companies covered under this code were expected to be in full compliance by the of 2011. This code is applied to all firms that are governed under the Bahrain Commercial and Industrial Firms Law whose shares are among the listed companies of the Bahrain Stock market.

The code contains nine principals. Transparency and the disclosure are highlighted in this code. The outlines of the corporate governance code in Bahrain were developed in cooperation with the supervising scheme of Ministry of Industry and Commerce, Bahrain Stock Exchange (BSE), Bahrain Monetary Agency (BMA), Bahrain courts, boards, company shareholders, and specialized companies including lawyers, investment counsellors, accountants, academics and government representatives. They

had worked for several years to enhance the framework of corporate governance in Bahrain (Corporate Governance Code: Kingdom of Bahrain, 2011; Shehata, 2015).

The purposes of the code were "*to establish best-practice corporate governance principles in Bahrain, and to provide protection for investors and other company stakeholders through compliance with those principles*" (Corporate Governance Code: Kingdom of Bahrain, 2011, p. 9). The 9 articulated principles include those related to the board of directors including their responsibilities, communication with shareholders, the establishment of a clear and effective management structure, and disclosure of corporate governance practices (Corporate Governance Code: Kingdom of Bahrain, 2011).

2.2.1.4 The State of Qatar

The Qatari authorities have displayed the desire to attract foreign investors via the development of the investment environment of the Qatar stock market and have made and efforts to improve the code of corporate governance in the Qatar. In 2005, the Qatar Financial Markets Authority (QAMA) has been established as an independent regulator in Qatar. Before that, the Doha Stock Market have conducted the monitoring and enhancement of the practices of corporate governance. In the beginning of 2009, the authority promulgated the Code of Corporate Governance for listed Companies on stock markets that the Qatar Financial Markets Authority governed. The most recent code was issued on January 27, 2009 (Gulf Co-operation Council Legal Information Network, 2009; Shehata, 2015).

The Qatari code has 10 sections, which establish principles for the board of directors, internal controls, the use of external auditors, disclosure, the rights of shareholders, a corporate governance report about compliance with the, and code enforcement. The code also two appendices that contain guidelines for the nomination of board members and a board charter model. Lack of compliance can result in fines and penalties (Gulf Co-operation Council Legal Information Network, 2009).

2.2.1.5 The United Arab Emirates

The Securities and Commodities Authority (SCA) is the regulatory authority for companies listed on stock exchanges in the United Arab Emirates. The framework for corporate governance in UAE was established in 2009 and made applicable to all companies listed on listed on the Dubai Financial Market (DAM) and the Abu Dhabi Securities Exchange Market (ADX) by 2009 (Shehata, 2015; Securities & Commodities Authority, 2009). The code for corporate governance includes provisions for the composition of the board of directors, the establishment of an audit committee, and reporting of compliance with the code of corporate governance. The SCA has the ability to impose penalties such as financial penalties and suspension from trading (Shehata, 2015).

Table 2.1 shows the board and audit committee structure based on the codes of corporate governance of each county. Table 2.1 implies that in GCC countries the board and audit committee structure are largely similar. The attributes of board and audit structure that are missing in the Table 2.1 are not stipulated in the codes of corporate governance of GCC countries.

Table 2.1 shows the common characteristics of Corporate Governance in GCC. First, is board composition, and it indicates that the five countries require the majority (or at least 50%) of the directors to be non-executives, while also requiring separate roles for the CEO and chairman. All countries require at least one-third of the board members to be independent, except in Saudi Arabia, where the requirement is for a minimum of one-third or two members, whichever is greater. Bahrain and Saudi Arabia only determine the number of members on the board, where the other countries do not address this issue in their codes. Board meeting frequency varies between at least four times in Bahrain, Oman and Kuwait, and six times in Qatar and the UAE, while this is unspecified for Saudi Arabia. As for the financial expertise of the Board, all those five GCC countries require at least one board member to have financial expertise, except Bahrain in which the majority should be financial experts. Second, Board committees are addressed in Table 2.1. All codes require the presence of at least three non-executive directors, where at least one of these should be a financial expert, except in Bahrain where the majority should be financial experts.

The independence of the audit committee members is provided in all codes except for the Saudi code; the majority of the members and the committee chair should be independent. Similarly, meeting frequency is set to a minimum of four meetings in all codes except that of Saudi Arabia. All codes include the following three duties of the audit committee: to monitor the integrity of the financial statements, as well as the effectiveness of the internal audit function, and to recommend the appointment of the external auditor. Finally, auditor rotation is determined in only two codes. In Oman, this rotation is stipulated as every four years, with a two-year cooling off period; in Qatar, this is every three years as a maximum.

Table 2.1
Board and Audit Structure in GCC Based on Codes of Corporate Governance

	Saudi Arabia	UAE	Qatar	Oman	Bahrain
Non-executive Directors	The majority of board members should be non-executive directors	The majority of board members should be non-executive directors	The majority of board members should be non-executive directors	The majority of board members should be nonexecutive directors	At least 50% of the board should be non-executive
Board Independence	One third independent (or 2 members, whichever is greater)	One third Independent	One third Independent	One third Independent	At least three Independent directors. One third should be independent in controlled companies
The roles of the Chairman and CEO	Should be separater	Should be separater	Should be separater	Should be separater	Should be separater
Board size	Not less than 3 not more than 11	Not stipulated	Not stipulated	Not stipulated	No more than 15 Members
Meeting Frequency of board	Not stipulated	At least 6 times	At least 6 times	At least 6 times	At least 4 times
Board financial Expert	At least one financial Expert	At least one financial Expert	At least one financial Expert	At least one financial Expert	Majority should be financial experts
Board committees	Audit Nomination Remuneration	Audit Nomination Remuneration	Audit Nomination Remuneration	Audit Nomination Remuneration	Audit Nomination Remuneration Corporate Governance
Size of audit committee	At least 3 independents	At least 3 independents.	At least 3 independents	At least 3 independents	At least 3 members
Audit committee Independence	Not stipulated	Majority Independent	Majority Independent	Majority Independent	Majority Independent
Audit committee Committee chair	Not stipulated	An independent	An independent If the Committee is not Fully independent	An independent	An independent
Audit committee financial Expert	At least one financial Expert	At least one financial Expert	At least one financial Expert	At least one financial Expert	Majority should be financial experts
Audit committee meeting	Not stipulated	At least 4 meetings	At least 4 meetings	At least 4 meetings	At least 4 meetings
Monitor the integrity of the financial statements	Yes	Yes	Yes	Yes	Yes
Auditor rotation	Not stipulated	Not stipulated	Every three year	Every four years	Not stipulated

Source: Hawkamah Institute for Corporate Governance (2010).

2.3 Ownership Structure in GCC

The ownership structure of firms is another crucial factor when it comes to the GCC corporate governance. Models of ownership structures around the globe may take one of four major shapes, namely, family control and ownership, state control and ownership, dispersed-shareholders ownership/control and bank-centred (Baydoun et al., 2012; Denis & McConnell, 2003; Porta, Lopez-de-Silanes, & Shleifer, 1999). The relevant ownership model impacts initiatives catering to improving, identifying suitable forms, and creating the major corporate governance elements.

Similar to institutions found in the developing countries, those in the Gulf Cooperation Council are still in their infancy. The majority of businesses have concentrated control in the hands of family ownership and a few shareholders (Shehata, 2015). Owing to historical reasons, significant state involvement is typically seen in firm control (Saidi, 2011; Vishwanath & Kaufmann, 2001). Their characteristics are distinct from the various shareholder ownership that is notable in developed countries, which is a type of ownership that separates control and ownership. Because of the ownership structure, the leadership and monitoring provided by independent directors are lacking in Middle East countries. These included ownership high concentration and that certain practices such as making rights issues to shareholdings and issuing invitations to wealthy and controlling families for share subscriptions in new IPOs sustain (Baydoun et al., 2012).

In the context of Saudi Arabia, Gavin (2010) found that firms owned by two families (Ahmad Hamad Algosaibi Company and Brothers Company) faced financial difficulties. The firms are large family-owned companies that had issues with their levels of transparency, oversight powers and monitoring, culture (with excessive

secrecy) and their over-dependence on individual relationships. Consequently, leaders (e.g., international banks) hesitated to lend to the companies. Regulatory change and enhancements were recommended to enhance transparency.

In a study that the Baydoun et al. (2012) conducted, the focus was placed on the practice of governance in public listed firms in the GCC countries. The findings revealed that most control and ownership of firms was held in the family corporate holdings and that the BOD were led by shareholders, friends of shareholders and their relatives. The separation of management and ownership is minimal, major shareholders are dominant in the process of decision-making and only a few independent directors serve on the board. The majority of the firms have the same individual serving as board chairman and CEO, and transparency and disclosure were lacking. Baydoun et al. (2012) reached the conclusion that a high concentration of corporate ownership negates the principles of good corporate governance.

However, the above explanations do not always create managerial issues from the shareholders' point of view among family-owned businesses, although social responsibilities remain an issue (Solomon, 2007). Management practices can be monitored by controlling shareholders to ensure the alignment of corporate goals with their needs. Nevertheless, as revenue growth becomes inadequate to finance expansionary development, more attention is directed towards shareholder base. Prospective equity investors have opinions about the power and strength of the majority shareholders and, in a well-organized foreign capital market, pursue higher earnings for greater risk. As the number of shareholders changes, variations exist in the perception and views about the most suitable corporate governance model. Corporate governance

is an important mechanism in a restructuring formula for family businesses that intend to go public in the GCC (Baydoun et al., 2012).

2.4 Summary of the Chapter

This chapter summarizes the overview of Arabic Gulf Cooperation Council from many aspects. This chapter provide overview that these GCC countries are similar in terms of geography, cultural, political relations and language. This chapter provide overview about the environmental culture in Muslim region comparing with corporate governance standerds. This chapter also discussed the effect of GDP and inflation rate in the economies of the GCC countries. It also provides the common characteristics of corporate governance in GCC countries, as shown in Table 2.1. This chapter also provides summary about the particular type of ownership structure in the GCC countries. The next chapter discuss the relevance literature review.

CHAPTER THREE

LITERATURE REVIEW

3.0 Introduction

Much has been written about determinants of foreign direct investment, and matters concerning this topic have been widely debated by academics, practicing accountants and investors. While, less attention has been paid about determinants of foreign share ownership. However, discussion of prior studies is important in assisting the researcher to identify the gaps where research in the area can be extended. It can also help to identify whether the provisions embodied in corporate governance codes and regulations are well implemented and practiced in the markets. Therefore, this chapter reviews the previous empirical studies related to the current study.

Chapter three discusses these two sections. First, in **Section 3.1** (prior studies), this study discussed a comprehensive of literature of prior studies about foreign share ownership, corporate governance, ownership structure, firm performance and using the English language in financial reporting. In addition, this study considers external factors such as economic variables and political risks as control variables. Second, in **Section 3.2**, the chapter deals with the theories of this study, namely, agency theory, resource independence theory and signalling theory.

3.1 Prior Studies

The section provides a review of prior studies concerning foreign share ownership, corporate governance, performance ownership structure and using the English language in financial reporting. In addition, this study considers external factors such as economic variables and political risks as control variables.

3.1.1 Foreign Share Ownership

Recent years have witnessed various research regarding to the association between foreign investment and economic growth. Numerous authors have focused their studies on the effect of inward foreign investment in the host countries. Following this line, the effect of foreign investment on the performance of economy in terms of foreign trade (Albulescu, 2015), macroeconomic stabilization, productivity and profitability (Al-Jaifi et al., 2016), and industrial specialisation *(*Aubin, Berdot, Goyeau, & Leonard, 2006*)* were explored. Lee (2013) pointed out the positive of external factors, capital funding opportunities and technology transfer. These features suggest that inward external investment positively impacts the economic growth. Subsequently, Mangena and Tauringana (2007) suggested that foreign investment affects the economies of host countries through various channels, affecting the market structures as well as competition and human capital development. The possible benefits of FSO are that FSO enhances the liquidity of domestic capital markets, brings discipline and expertise into the local capital markets and improved economic performance as a result of diversification (Mangena & Tauringana, 2007).

Foreign investors perform a large and vital role in evolving markets. Attracting FSO raises the liquidity of internal capital market and can assist in creating market productivity. As markets become more liquid, deeper and wider, a greater number and variety of investments can be funded. New businesses, for example, have greater opportunities for getting start-up funding. Potential investors have a greater chance to invest on the guarantee that they possess the capability to manage their range of investments or to quickly offer their financial securities for sale when they require access to their funds. In this regard, liquid markets are capable of making longer-term

investments more lucrative and attractive (Bekaert & Harvey, 2000; Bekaert et al., 2001; Ramaswamy & Li, 2001). In a well-organized and larger market, investors would have greater inclination and motivation to expend resources in seeking new or emerging investment prospects. As businesses compete for funding by attract more investors, the demands for and quality information is important to them. Add to the above, external portfolio investors who lack insider information about investment prospects are most likely to require a higher degree of disclosure in the financial reporting and accounting standards, have the experience to utilize the standards and have knowledge of the ways in which they function (Bekaert & Harvey, 2000).

FSOs can also assist in enhancing the growth of equity markets and shareholders interest in corporate governance. As firms compete for business, FSO would be rewarded in the market, better opportunities arise for future performance, as well as good corporate governance. With continuous improvements in a market's liquidity and functionality, the prices of equity will reflect the original values of firms, facilitating greater efficiency in the allocation of capital flows. Effective and well-organized equity markets would facilitate acquisitions in areas in which portfolio and direct investment overlap. Acquisitions can change an ineffective organization into an effective, lucrative and profitable one, strengthening the business, the return on investments to its investors, and the economy of a nation (Bekaert & Harvey, 2000; Bekaert et al., 2001).

In the past decade, developing countries have been concentrating on capital streams and, in regard to this, FSO refers to the proportion of shareholding of the non-resident foreign investors (Bokpin et al., 2015). Mangena and Tauringana (2007) described FSO as the percentage of shareholding by foreigners. After the stock markets were liberated

and businesses began going private in the 1980s, the chances to increase shareholders were increased on the basis of attracting foreign investors from all over the world. These developments enabled investors to enhance the risk and returns of their portfolios. Nonetheless, several studies have reached the conclusion that the foreign investment levels were significantly lower than would be normally expected normal to contemporary financial theory (Chan, Covrig, & Ng, 2005; French & Poterba, 1991; Tesar & Werner, 1995).

In the context of foreign investment effects in developing countries, Agosin and Machado (2005) concluded that foreign investment can create an adverse effect on domestic investments. They recommended better policies for foreign investment to make foreign investment more effective in developing countries. More importantly, the literature consistently reports that the combination of portfolio and direct investment can provide an economy with greater benefits, and collectively the advantages are increased (Mangena & Tauringana, 2007; Miletkov et al., 2014)

Past scholars, in their empirical and theoretical studies, have addressed home bias in investor portfolio allocation. For instance, Cooper, Sercu and Vanpee (2013) advanced six forms of explanations including precise costs of foreign investment, hedging domestic risks, information asymmetries, transparency and governance issues, trade familiarity, and behavioral biases. Their work became a reference for later empirical studies. On a similar note, the role of governance and expropriation by insiders or on the effect of inadequate regulatory and institutional environments may influence the decisions concerning foreign investments. Internal risk considerations, further costs and

obstacles to foreign transactions and information asymmetry are important despite the lack of consensus about them (Cooper et al., 2013).

Despite stock markets liberalization globally, previous literature has argued that local investors mostly own the shares of firms (Ahearne, Griever & Warnock, 2004; French & Poterba, 1991; Cooper & Kaplanis, 1994; Kho, Stulz, & Warnock, 2009; Lang, Lins, & Miller, 2004; Tesar & Werner, 1995). This is especially more predominant in developing countries than in developed ones (Salter, 1998; Ball, Kothari & Robin, 2000; World Bank, 2004). The literature offers numerous explanations with regards to this phenomenon, otherwise known as the ‘‘home bias’’ (French & Poterba, 1991; Shukla & van Inwegen, 1995; Dahlquist & Robertsson, 2001). The most commonly given explanations for home bias are as follows: transaction costs and information asymmetry (Young & Guenther, 2003), differences in corporate governance across countries (Dahlquist et al., 2003; Klapper & Love, 2004), legal and institutional constraints (Klapper & Love, 2004) and foreign exchange risk (Shukla & van Inwegen, 1995).

From the perspective of many developing countries, the smaller size of stock markets and deficiencies in technology that hinders trading easily, settlement and clearance processes constitute major problems (World Bank, 2004). Most literature seems to explicate FSO from the cross-country point of view. Thus, FSO has generally been investigated from a cross-country perspective.

Quite a few of these studies have investigated the problem from perspective of firm, specifically in developing countries. In the recent times, empirical research that has

explored FSO in relationship to firms is growing in number. Kang (1997) was the first to conduct a study on FSO with focus on firms in the developed country. Kang (1997) further explained that foreign investors prefer to invest in bigger firms with low debits and a higher export sales ratio. His outcomes have been substantiated in the study that Jiang and Kim (2004) conducted, which also reported that foreign investors steer clear from companies where financial institutions hold most of the shares. Dahlquist and Robertsson (2001), in a study of Sweden, revealed that foreign investors express their preference toward larger firms having little dividend disbursement and a large balance sheet position. They further argued that foreign investors participate in companies whose shares seem more liquid and are registered with foreign stock exchanges.

In the context of the developing countries, Lin and Shiu (2003) provided evidence from Taiwan. Lin and Shiu (2003) revealed that foreign investors preferred to have shares in large firms with greater export sales ratios and a higher beta. In alignment with Merton's (1987) model, these findings established that foreign investors choose to invest their fund in firms that they have full and genuine information.

In the context of the foreign investment, the argument has been made that, despite the various benefits associated with FSO especially in the area of economic growth, GCC countries have not adequately attracted foreign portfolios (Kern, 2012). GCC countries are characterized by economies of that are dependent on oil as a major supplier, and GCC countries have benefitted over the years from high oil revenues, which enabled them to adopt an expansionary fiscal policy (GulfBase, 2015). GCC countries had strong economies with a robust growth of 3.7% in 2013, unlike most developing economies, which were still recovering from the financial crisis of 2007-2008

(GulfBase, 2015). Therefore, Arabic Gulf Countries might seem to be profitable regions for foreign investments.

However, it is not rational for them to totally depend on oil as a major source of revenue because experience has shown that prices of oil can plummet as they did in 1980, 1998, 1999, 2015, which resulted in fiscal deficits that affected the budgets of the Gulf Cooperation Council countries (Fasano & Iqbal, 2003; Santos, 2015). Therefore, it is better for Gulf Cooperation Council countries to seek a new economic strategy, a strategy seeking to encourage economic diversification through foreign direct investments, and foreign portfolio investments and private sector involvements. So, an inflow of foreign investments to Gulf countries is important to develop the region through technology, knowledge and skills that can improve the productivity of local firms and increase the GDP of those countries.

Prior studies such as Bokpin and Isshaq (2009), Utama, Utama and Amarullah (2017), Leuz et al. (2010), Mangena and Tauringana (2007), Reaz and Hossain (2007) and Tsamenyi, Enninful-Adu, and Onumah (2007) have examined the association between corporate governance and foreign ownership and have found that foreign investors are attracted to firms that have good corporate governance practices. More specifically, Mangena and Tauringana (2007) examined the influence of disclosure and corporate governance on FSO for Zimbabwe Stock Exchange listed-firms. The results found that disclosure, proportion of non-executive directors, institutional share ownership and audit committee independence are all positively and significantly associated with foreign share ownership.

In India, Kansil and Singh (2017) investigated the firm characteristics such as firm size, ROA, leverage, growth, market capitalization on foreign institutional ownership. The results signified that the interests of foreign investors would rise in moderately profitable, growing and bigger companies with low leverage. These results indicated that firm characteristics play an influential role in attracting foreign institutional investors.

In Jordan, Al-Najjar (2010) investigated the factors determining the investment decisions of institutional investors with the use of non-financial data. He revealed that Jordanian organized investors deemed a firm's capital structure, risk of business, asset structure, liquidity, company development and size when deciding on investing.

Other studies have acknowledged private mechanisms for attracting foreign capital. For instance, Ammer et al., (2012), Leuz et al., (2010) and Miletkov et al., (2014) discovered that investments in a foreign corporation by US entities increases when the establishments are cross-quoted on a U.S. exchange. They studied selection bias associated with company size, financial transparency and the solvency of companies attract the interest of foreign investment and found that companies that were large, had financial transparency, and were more solvent were more likely to be cross-quoted. Additionally, Doidge, Karolyi, and Stulz (2007) contended that it is challenging to counteract the adverse effect of weak institutional infrastructure and that having superior firm-specific governance activities was important. Based on their empirical findings, country characteristics significantly affected the governance ratings of companies more than firm characteristics did.

In the cases of Sweden, Dahlquist and Robertsson (2001) respectively concluded that foreign investors are more amiable towards larger firms having low-yield pay-outs and a more robust financial situation as evidenced by its balance sheet. The findings indicated that stockholders are more likely to be involved with businesses with fluid shares and registered on foreign stock exchanges and that strategies that facilitate distinct performance in the overall market and acknowledge the purchases and sale of shares of foreign investors are important.

Furthermore, Huang and Shiu's (2009) case study in Taiwan examined the local effects of equity ownership among investors categorized as qualified foreign institutional investors. They showed that foreign stockholders hold significant shares in major firms that possess a significant export ratio and businesses with a high beta. This finding supported Merton's (1987) model, which posits that foreign investors are more likely to participate if they have ample information.

In Ghana, Bokpin and Isshaq (2009) investigated the impact of corporate governance and corporate disclosure on FSO. The results indicated a statistically significant interaction between corporate disclosures and foreign share ownership among the sampled firms. The market value of equity and market-to-book value ratio is documented; free cash flow and financial leverage have statistically significant relationships with foreign share ownership. They opined that further studies are required in developing countries to examine the foreign ownership in different contexts.

Other have also examined countries without sound protection and legal backing for the interests of minority shareholders and investors. For example, Stulz (2005) examined

what he called the twin-agency problems, which he said arise because rulers of sovereign states and corporate insiders pursue their own interests at the expense of the foreign investors. The results indicated that the ownership concentration affect economic growth, financial development, and the ability of a country to take advantage of financial globalization, refer to that the twin agency problems help in explaining why the impact of financial globalization has been limited and why financial globalization can lead to capital flight and financial crises.

Leuz et al. (2010) examined 4,409 firms in 29 nations and concluded that foreigners invest less in firms in countries with poor outsider protection and disclosure and have ownership structures that are conducive to governance problems. They also found that U.S. cross-listing was at least indirectly associated with a firm's ownership and governance structure. They argued that countries with high levels of insider control and countries with weak institutions are likely to be more taxing to foreign investors in terms of their information and monitoring costs, which in turn could explain why foreigners stay away from these firms.

Along a similar line of study, Doidge et al. (2007) contended that it is quite challenging to overcome the adverse effects of poor corporate governance. Using 23 countries across the globe, they found that corporate governance practices were more related to a firm's ratings compared to a firm's characteristics. Interestingly, they found that firm characteristics explain almost none of the variation of governance ratings in developing countries.

Some have studied the relationship between board characteristics and foreign investors. For example, McCahery, Sautner, and Starks (2016) found that institutional investors were more inclined towards firms having sovereign boards. In addition, Chung and Zhang (2011), who studied companies listed on American stock exchanges and examined the impact of board independence, explained that the proportion of institutions that hold a firm's shares increases with its governance quality as does the percentages of shares held. This was attributed to meeting fiduciary responsibilities, monitoring costs, and liquidity reasons. More specifically, information-asymmetry and costs of monitoring are affected by the board composition, and cross-sectional differences in foreign ownership may be explained in part by the structure of the board. Miletkov et al. *(*2014) examined the directors' role as the primary monitoring device and its relationship with foreign investors, and if organized ownership moderates the BOD-foreign investor's relationship. They found that foreign independent directors were with lower operating performance. However, the relationship between foreign independent directors and performance was less negative in firms with foreign sales, and when a foreign director came from a country that was geographically close, had a similar culture and language, or had better developed capital markets and higher quality legal institutions than the host country.

Moreover, equity ownership by different groups influences the performance of the firm in different ways (Jensen & Meckling, 1976). From this viewpoint, the effects of segmented organized ownership on international investors should be examined. Countries having high-quality legal institution, good protection for investors, dynamic capital market participants and effective regulators assist in monitoring management and in confirming financial statements quality. Such characteristics have led to the

minimization of the required verifications of independent directors. Nevertheless, in countries having truncated investor protection and low-quality legal institutions and in underdeveloped capital markets, directors are expected to be more observant of the management to certify the quality of financial statements. Thus, in countries having poor investor protection, the presence of independent directors is more required to decrease the information asymmetry between local and foreign investors.

Existing studies that have examined the influence of governance mechanism on foreign investments have provide mixed results. Chan et al. (2005) studied mutual fund holdings at the country-level and reported that foreign investors avoid countries that exhibit a high risk of government expropriation. Giannetti and Koskinen (2010) making use of data from the same source found that foreign investors invested a larger portion of their resources in countries with good scores for the private implementation of investor rights. Aggarwal, Klapper and Wysocki (2005) revealed that foreign investors had higher a predisposition to invest in companies having strong corporate governance because their money needs to be guarded against mismanagement. The results showed that steps can be taken both at the country and the firm level to create an environment conducive to foreign institutional investments. These include better accounting standards and better corporate governance.

Added to the above studies, Yeh and Woidtke (2005) showed that the controlling boards by family members and investor protection are unsatisfactory because it is challenging to discern the separation of administration from owners. They also suggested that poor governance occurs when the board is dominated by members who are affiliated with the controlling family but good governance when the board is dominated by members

who are not affiliated with the controlling family and that relative firm value was negatively related to board affiliation in family-controlled firms. Additionally, Klapper and Love (2004) discovered that weak corporate governance practices in listed companies will change the preferences of foreign investors for investing so that they invest in FDIs instead of FSOs as an FDI has superior protection.

Similarly, Dahlquist et al. (2003) examined the FSO of United States investors in foreign firms. Their study showed that these investors preferred companies having good corporate governance practices and that they also tended to avoid closely held companies with proportionately few shares trading on the open market. One reason, according to Covrig, Lau, and Ng (2006) is that fund managers interested in foreign stocks have scarce information concerning local stocks. Using data from more than 25,000 mutual funds from around the world, they revealed that foreign funds ownership was related to the adoption of International Accounting Standards, in that the average ownership by these funds was significantly higher when International Accounting Standards were adopted.

Kim et al. (2010) studied foreign investors and foreign ownership in the Korean stock markets. They evidence found that foreign equity ownership was negatively associated with ownership concentration and positively associated with the efforts of a firm to improve corporate governance. Additionally, they found that foreign ownership was related to foreign liquidity, systematic risk, Tobin's Q, and ROA. However, domestic investors behaved differently from foreign investors in that domestic investors appeared to be less sensitive to firm-level corporate governance than foreign investors (Kim et al., 2010).

All the above-mentioned studies were focused on non-financial firms leads to the question of how corporate governance, performance and ownership structure impact foreign share ownership in non-financial companies in the GCC. The significance of foreign investment lies in its escalation of the liquidity of capital markets and its enhancement of market efficiency. In a liquid market, comprehensiveness is extended, and a range of investments may be financed. For instance, new initiatives possess a greater opportunity of being allocated to start-up financing and investors can capitalize on a successful portfolio or trading their financial securities in a timely manner when they so desire as a liquidity markets makes long-term investments more possible.

In sum, a more thorough understanding determinants of FSO calls for tests that discriminate between and among causal factors. Therefore, this current study is designed to extend prior studies to examine BOD and AC characteristics (include size, independence, meetings and financial expertise of directors); effectiveness of both BOD and AC; audit quality; firm performance; family ownership; local institutional investors and the adoption of English language in external financial reporting as independent to determine their value in attracting FSO in the non-financial listed firms in the stock markets in the GCC countries including Bahrain, Oman, Saudi Arabia, the United Arab Emirates (UAE) and Qatar.

3.1.2 Corporate Governance

The origin of corporate governance can be traced back to the conflicts of interests between shareholders and management due to the separation ownership and control (Berle & Means, 1932). According to the agency theory that Jensen and Meckling

(1976) proposed, corporate managers, and controlling shareholders behave in own self-serving interests to the detriment of the rights of the minority shareholders.

Corporate governance entails a set of interconnections between the management of the company, the board, the shareholders and the remaining stakeholders. Corporate governance furnishes the company with a structure for its objectives, for achieving such objectives and for monitoring performance (OECD, 2004). Similarly, Parum (2005) defined corporate governance as a set of principles addressing the governance of the firm and the way the principles are externally communicated.

Solomon (2007) argued that corporate governance includes a system of external and internal checks and balances on firms. These ensure that firms take accountability in front of their stakeholders and that they adopt socially responsible activities in all business processes. In examining myths and misconceptions concerning corporate governance in the circles of academics, politicians, and the media, Brickley and Zimmerman (2010) concluded that corporate governance can be defined as the system of laws interfering in the way decisions are made within the company that promotes transparency, disclosure and credibility of the decisions. The most important objective of corporate governance is to safeguard the rights of minority shareholders and to separate the power between the executive management and the BOD. Corporate governance is also evidenced in a company's plans and policies, encourages confidence in them, and allows shareholders' interests to be catered to.

On the basis of the principles laid down by the OECD, good corporate governance should furnish appropriate remunerations, rewards and compensations on BOD and for

management in order to meet the interests of the firm and the shareholders, and to bring about an effective monitoring mechanism that promotes the use of resources in an efficient manner. Moreover, a strong corporate governance system, in a firm and throughout the economy, promotes the degree of confidence needed for the market's proper functioning, whereby the costs of capital are made lower as firms are urged to efficiently use resources (OECD, 2004). Corporate governance is required to handle the discord between corporate outsiders and insiders. Where there is information asymmetric, corporate governance affords managers the opportunity to accomplish their aims, which may not be congruent with that of the owners. Importantly, the managers may be self-centred to the detriment of shareholders' interests (Al-Najjar, 2010).

The topic of corporate governance has been studied in developed countries and in developing ones. In emerging countries, corporate governance devices have been found to be related to firm performance in many theoretical and empirical studies (Barako, 2007; Barako, Hancock & Izan, 2006; Claessens & Yurtoglu, 2013; Ehikioya, 2009; Gibson, 2003; Chakrabarti, Megginson & Yadav (2008); Klapper & Love, 2004; Mishra & Kapil, 2018; Nuryanah & Islam, 2011; Rajagopalan & Zhang, 2008; Shariff, Abidin, & Manaf, 2016). Effective corporate governance devices in emerging markets are of great importance for local firms and external investors interested in the pursuit of the great opportunities for investment and growth that emerging countries offer (Bushman, Chen, Engel, & Smith, 2004; Rajagopalan & Zhang, 2008). From the viewpoint of domestic companies, existing evidence demonstrates that companies in emerging economies (compared to their counterparts in developed countries) are discounted in financial markets due to their lack of robust governance (Mishra & Kapil,

2018). Enhancements of corporate governance can boost investors' confidence in companies in emerging economies and these can increase the access of companies to capital (Rajagopalan & Zhang, 2008).

Several studies have been carried out regarding the relationship of corporate governance with FSO (Al-Najjar, 2010; Bokpin & Isshaq, 2009; Bokpin et al., 2015; Utama et al., 2017; Haldar and Nageswara Rao, 2012; Jiang & Kim, 2004; Kim, 2010; Kim et al., 2010; Klapper & Love, 2004; Leuz et al., 2010; Mangena & Tauringana, 2007; Miletkov et al., 2014; Min & Bowman, 2015; Tsamenyi et al., 2007; Suwaidan et al., 2013).

Studies have examined numerous factors related to corporate governance in several contexts. For example, Mangena and Tauringana (2007) examined the influences of corporate governance and disclosure on FSO for Zimbabwean Stock Exchange firms. Their findings showed a positive link between independence of AC and foreign ownership, and the proportion of non-executive directors serving on the board. In another study, Leuz et al. (2010) examined the foreign investors-corporate governance relationship in a study sample comprising 4,409 company-observations obtained from 29 countries. They found that firms with deficient governance structures appear to be more taxing to foreign investors that the monitoring and information costs could be the reason why most investors do not want to invest in such firms. Therefore, an effective corporate governance structure has a key role in the investment decisions of foreign investors.

In the case of Korea, Min and Bowman (2015) looked into the influence of corporate governance, regulations and foreign equity ownership. The study sample comprised 2842 firm-years among Korean listed firms in the Korea Listed Companies Association (KLCA) database, which contains a comprehensive list of listed firms included in the Korea Exchange. The authors found that foreign investors are concerned with the merit of the appointed external directors.

Similarly, the consequence of transparency and corporate governance mechanisms on FSO was examined by Bokpin and Isshaq (2009) in a study sample comprising Ghanaian listed companies on the stock market. Their findings revealed that, when foreign investors decide to invest, they focus on the listed firms' corporate governance and disclosure practices. They also showed that foreign investors steer clear of firms having weak structures of corporate governance and lacking in disclosure practices.

Added to the above studies, Kim et al. (2010) investigated the influence of ineffective governance mechanism on participation of FSOs in Korean firms, which have a unique form of concentrated family ownership called chaebol ownership. The result of the study shows that FSO has a negative relationship with the ownership concentration of firms, while it positively relates with a firm's efforts to enhance their corporate governance. In India, the corporate governance and foreign portfolio investment was examined by Haldar and Nageswara Rao (2012) using a sample of 500 industrial firms. The result of the study reveals that corporate governance and financial attributes significantly influence foreign investment.

Meanwhile, in the MENA region, Al-Najjar (2010) examined the determinants of institutional investors' investment decisions by employing the data of non-financial Jordanian firms. The finding of the study revealed that Jordan institutional investors consider profitability, a firm's capital structure, business risk, liquidity, asset structure, firm size and its growth before taking a decision to invest.

Klapper and Love (2004) found that better corporate governance is highly correlated with better operating performance, and market valuation in emerging markets. More importantly, the authors provide evidence showing that firm-level corporate governance provisions matter more in countries with weak legal environments. These results suggest that firms can partially compensate for ineffective laws and enforcement by establishing good governance and providing credible investor protection. They stated that, when external investors buy company shares, they must consider the risks of returns on their investments as there could be instances of expropriation by corporate managers or controlling shareholders. Min and Bowman (2015) mentioned that foreign investors consider the merits of outside directors.

In relationship to the above, Shariff et al. (2016) investigated the perceptions on the board of directors concerning corporate governance practices among Malaysia co-operative societies that manage hotels and accommodations including homestays. Examining 56 boards of directors, the study found that these boards perceived that good governance was important.

Moreover, Bokpin and Isshaq (2009) and Mangena and Tauringana (2007) investigated the effect of corporate governance and disclosure upon FSO. They recommended that

more studies need to be conducted in developing countries to determinant factors that affecting on FSO. In a related study, Miletkov et al. (2014) considered the influence of board independence on the capability of the firm to pull in foreign equity capital. They also noted that U.S. investors and non-U.S. foreign investors display an inclination for firms that possess independent corporate boards. Along a similar line of contention, Chakrabarti et al. (2008) examined the governance system in India in terms of its contribution to the economy of the country, and its attraction of protection of foreign investors. Meanwhile, Suwaidan et al. (2013) explored the effect of corporate governance on FSO they found there is no relationship was found between BOD characteristics and AC characteristics on foreign ownership. Therefore, there is a conflicting result in the previous studies.

Thereupon, this current study will examine the relationship between corporate governance and FSO and fill the existing gap in the literature by investigating the linkage between corporate governance and FSO in the GCC.

3.1.2.1 Board of Directors Characteristics

The BOD is one of the essential elements of internal corporate governance. Fama and Jensen (1983) stated that, by monitoring and controlling management, the board can minimize the agency problem based on the premise that managers may possess their own preferences and as such, they may not always work towards satisfying the needs of shareholders. This stresses the importance of the board's monitoring role (Limpaphayom & Connelly, 2006). Prior studies in the literature including Akhtaruddin, Hossain, Hossain, and Yao (2009), Chobpichien, Ibrahim and Haron (2008), Khodadadi, Khazami, and Aflatooni (2010), Lefort and Urzúa (2008) and Singh

and Mitchell Van der Zahn (2008) are of the consensus that the BOD is core to a firm's internal governance by providing a major monitoring function in dealing with agency issues.

In view of the above discussions, the following section will provide an overview of the mechanisms that play a key role in board characteristics including size, independence and meeting. These mechanisms are invaluable to the smooth and enhanced performance of firms in developing countries (Al-Matari et al., 2012).

The reviewed studies regarding of investigation of the relationship between board characteristics and firm performance have shown inconsistent results. Also, prior studies did not examine the relationship between the financial expertise, frequency meetings and effectiveness of both BOD and AC with FSO and, therefore, this study examines BOD financial expertise, BOD meetings and BOD effectiveness, financial expertise of AC, AC meetings, AC effectiveness and FSO. These differences are crucial for attracting foreign investors and earning their confidence by offering new insights. The next sub-sections provide a discussion of the characteristics of BOD and AC including size, independence, frequency meeting, financial expertise and effectiveness (SCORE).

3.1.2.1.1 Board Size

The size of the board, reflected by the number of director number on the board size and its impact on the effectiveness of the board have long been investigated in the literature (Al-Manaseer et al., 2012; Nanka-Bruce, 2011; O'Connell & Cramer, 2010; Rachdi & Ameur, 2011). According to Epps and Ismail (2009), Jensen and Meckling (1976) and

Jensen (1993), in relationship to this, the agency theory posits that a larger board would be more competent and result in better performance owing to the integration of different expertise, skills and knowledge brought into the discussion during meetings of the board, which significantly result in a better monitoring mechanism of management, better performance and increased investor confidence. Zahra & Pearce, (1989) supported this, arguing that, when the size of the boards is larger, there is a tendency that more time will be devoted to overseeing the management.

This argument is also noted in other studies including those of Akhtaruddin et al, (2009), Khodadadi et al. (2010) and Singh et al. (2008) that mentioned that a larger board would be a better monitoring entity as more directors lead to more experience and expertise that would, in turn, enable optimum board performance and would thus would lead to enhanced board effectiveness, reduced agency cost, better financial outcomes and increased investors. A large-sized board would also play a key monitoring role as a separation is present between ownership and control within the company ensuring the protection of foreign investor from the expropriation of owners (Jensen & Meckling, 1976).

Larger-sized boards are seen as being more appropriate for corporate performance owing to their higher capabilities and their possession of expertise in assisting management in decision making, and they are not as susceptible to CEO's manipulation as small boards. This could result in enhanced governance, specifically in terms of company management and financial performance. Larger boards are more capable of opening up opportunities to improve the diversity of the board in light of experience, skills, gender and race. According to Fama and Jensen (1983), a BOD should be formed

from external and internal directors, as the latter possess technical experience and knowledge, and the former are capable of contributing to strategic decision making and providing effective monitoring of management in comparison to its counterpart.

On the other side of the spectrum, Jensen (1993) argued that larger sized board make the corporation more ineffective as it is difficult to monitor the CEO. As the board gets too big, coordination and process issues crop up, unlike in a smaller board, where the possibility of free riding is minimized by individual directors and the process of decision-making is enhanced. This argument is also reflected in the study by Lipton and Lorsch (1992) who contended that, with an increase in board size, board effectiveness will decrease in terms of its monitoring of management and that board membership should be confined between eight and nine. They also contended that any additional advantages brought on by additional membership will counter the costs related with slow decision making and efforts for coordination and control of a CEO. As for foreign share ownership, Mangena and Tauringana (2007) revealed no significant relationship between FSO and the size of the board. This is aligned with the premise that board size has a negative relationship to the quality of board monitoring.

It is evident from the above discussion of literature that two views stand out concerning board size. First, with an increase in the size of the board, its effectiveness will also increase. This notion has its basis on the assumption that with an increase in the board members, experience, expertise and independence will also increase. However, with a lack of diversity among the members, increased size will fail to contribute to the board's effectiveness. Second, a small board can contribute to the BOD' effectiveness based on the assumption that excessively large boards are less effective owing to the CEO's

sufficient power to control operations and decisions owing to the lack of coordination of the board. This view posits that a lack of diversity in the board also makes it less effective.

Some previous studies found a negative link between portfolio investment and board size. Mangena and Tauringana (2007) found no significant link between board size and FSO, although the coefficients were positive. These results point to the assumption that board size should not be taken into consideration in a foreign investor's decision-making process, which is contrary to what the literature has suggested (e.g., Karamanou & Vafeas, 2005; Mangena & Pike, 2005). In addition, Nahar Abdullah, Zalina Yusof and Naimi (2010) Beasley (1996) revealed that the board size exhibited significant influence on the possibility of fraudulent financial statements to some degree and that even a little rise in the size of board may increase the possibility of fraudulent financial statements.

Large size of board is important because more brains can produce better results but beside their importance and advantages there are some disadvantages. It is difficult to determine the ideal size for the board. The studies on board size as an indicator of performance of the companies have conflicting arguments. Several researchers revealed that larger board size is good for the financial performance of the company (Coles, Daniel & Naveen, 2008). Companies that have small board, the performance of CEO is better as compared to the otherwise. Likewise, researchers have also shown an unfruitful effect of board size over the performance of companies (Haniffa & Cooke, 2002). There are studies in favour of large and independent board (Bai, 2013). At the same time several researchers argued that there is an adverse effect of independent

directors and large board size. Even few studies claim that independent or non-independent board has no impact over performance of the company.

It is, therefore, sufficient to say that the appropriate board is important as a too small or large board can slow down decision-making. For instance, a small board might have members who are not well experienced, while finding a sufficient number of members for a big board might be difficult. Fixing the right size of the BOD, therefore, is critical. The board size of listed companies in Gulf Cooperation Council differ. For instance, BOD size in Qatar is to range between 5 to 8 and Bahrain a board is not to contain more than 15 members, while there are only 6-7 members in Dubai. The likely reason for this is connected in one way or another with the legal framework of these countries (Baydoun et al., 2012).

In relationship to this, the agency theory posits that a larger board would be more competent and result in better performance owing to the integration of different expertise, skills and knowledge brought into the meeting discussion of board. Thus, this study will examine the relationship between board size and FSO in the listed companies of GCC countries.

3.1.2.1.2 Board Independence

Directors on the board are said to be independent when they do not hold any executive position. In this regard, Jensen and Meckling (1976) and Pfeffer and Salancik (2003) stated that boards that having a majority of independent directors could minimize the agency issues through their monitoring and controlling of management's self-serving actions. In this line with this argument, the prior studies of Akhtaruddin et al. (2009),

Al-Matar et al. (2014, 2012), Chobpichien et al. (2008), Fama and Jensen (1983), Garcia-Meca and Sánchez-Ballesta (2010), Lefort and Urzúa (2008), Mangena and Tauringana (2007), Miletkov et al. (2014), Mishra and Kapil (2018) and Shariff et al. (2016) claimed that external directors are more significant in determining the effectiveness of the board when it comes to monitoring and controlling management's self-serving behavior as they are more motivated to make decisions that safeguard their reputational capital. Thus, independent directors can reduce the agency problem between owners and managers by monitoring and controlling the managers' actions (Benkraiem, 2009).

Added to the above, regarding to GCC countries, the GCC Codes of Corporate Governance (2010) states that the board has to have three members that are non-executive, in other words, the non-executive directors should be in a majority in the board as board independence has a key role in monitoring management.

According to prior empirical studies, Al-Najjar (2010), Bokpin and Isshaq (2009), (2005), Khodadadi et al. (2010), Kim et al. (2010), Mangena and Tauringana (2007), Miletkov et al. (2014) and Singh et al. (2008) the increased independency of the BOD could improve the provision of invaluable information to the foreign investors. This independence could contribute to the internal control of the company and provide a serious monitoring mechanism for the companies to minimize exploiting behavior and information imbalance. In addition, board independence improves the transparency and voluntary disclosure in financial reports.

Furthermore, Baydoun et al. (2012) and Buallay, Hamdan and Zureigat (2017) examined governance practices in public listed companies in the GCC countries of Saudi Arabia, the United Arab Emirates, and in other Arabic countries such as Jordan and Lebanon. The findings showed that the majority of the company ownership and controls were held by family corporate holdings, with the BOD controlled by the dominating shareholders, friends or relatives. In these companies, separation is indiscernible between management and ownership, and the major shareholders controlled the corporation's decision-making process. Also, there were a minority of independent of the board directors in majority of the companies and the companies had CEO duality in which the board chairman also occupied the position of the CEO. In other words, one of the major issues facing GCC companies is the search for more independent experience and qualified members on the BOD.

In this regard, Joshi and Wakil (2004) and Fallatah and Dickins (2012) claimed that in small states in GCC countries such as Saudi and Bahrain, it is challenging to search for non-executive directors in the BOD who are really independent and that the lack of alternatives prevents independent directors from contributing to corporate governance. Board of directors are responsible for monitoring, maintaining discipline, and removing ineffectiveness in the organization (Baber, Liang, & Zhu, 2012). If the board of directors are under any influence then it is difficult for them to perform their responsibilities, therefore, it is considered that independent board of directors are effective for getting high performance from the board.

Many previous studies have found a positive association between board independence and FSO. Miletkov et al. (2014) studied the effect of board independence on the FSO

in non-financial companies in the United States. The result showed a positive relationship between board independence and foreign ownership. In Korea, Min and Bowman (2015), who examined the impact of board independence on foreign ownership, found a positive impact of an independent directors on foreign ownership. Mangena and Tauringana (2007) found positive relationships between FSO and both the independence of the AC and the percentage of independence directors on the company's board on the Zimbabwe Stock Exchange. In Ghana, Bokpin and Isshaq (2009) studied the influence of transparency and corporate governance on FSO, drawing sample from firms listed on the Ghana Stock Exchange. The findings revealed that board independence was related to FSO.

In Jordan as a one of the MENA countries, Suwaidan et al. (2013) found different results, finding no significant relationship of board size, audit committee, board independence, and duality with non-Jordanian share ownership. Therefore, the present study will examine the relationship between board independence and FSO in the listed companies of GCC countries.

3.1.2.1.3 Board Meetings

The BOD is responsible for attending meetings to vote on major decisions (Lipton & Lorsch, 1992), and the board effectiveness is often measured through the number of meetings that the board holds. According to Jensen (1993) the board should be an active element of governance and that boards should be able to tackle issues and conduct meetings frequently. They should be provided with ample opportunities to meet and monitor executives and CEO to extend their firm knowledge and to enhance top-level executives' transparency.

More frequent meetings of the board are often seen as increasing the performance of the companies as frequent meeting could reflect an increased monitoring and review of management performance to satisfy and meet the interests of investors (Hsu & Petchsakulwong, 2010). Moreover, board diligence is seen as comprising several factors including frequency of board meetings, the behaviour of individual members, meeting preparations, contributions in the meetings and following up after the meeting. However, the only observable factor among the above-mentioned factors is the frequency of board meetings (Carcello, Hermanson, Neal, & Riley, 2002).

The frequency of meetings of the board members is expected to enhance the monitoring function of the board specifically to issues that concern the financial reporting process, and this is expected to lead to annual report transparency that is invaluable for foreign investors. To this end, Conger, Finegold, and Lawler (1998) concluded that frequency of the board meetings enhances the effectiveness of the board while Ebrahim (2007), O'Neill (2004) and Vafeas (1999) stated that meetings form a major dimension of board activities and that the frequency of meetings is considered to reflect the board's performance of their duties as consistent with the interests of the shareholders.

In other words, frequency of meetings is often seen as reflecting that the board members are putting more effort into their monitoring role for financial reporting and thus, are enhancing the disclosure aspect and providing ample information to foreign investors. In line with this, if the members want to work towards providing the shareholders with benefits, they are more likely to perform their responsibilities (Lipton & Lorsch, 1992). In addition, board's diligence in its oversight responsibility could improve its

monitoring of the process of financial reporting (Haniffa, Yatim, Kent, & Clarkson, 2006).

Board members commitment, which refers to the effort and involvement exerted during discussions and the continuous contribution in the decisions taken during the board meetings, would depend on the level of their participation in a meeting (Judge & Zeithaml, 1992). Similarly, the involvement of board members involves readiness and the capacity to put forward useful questions and to contribute constructively in the decision-making process as a board member. To guarantee involvement, board members must be equipped and ready for the board meeting, which translates into their preparedness and capability to attend and contribute meaningfully in board meetings with a comprehensive understanding and a display of knowledge and proficiency of the topics that would be deliberated upon to contribute enthusiastically to the process of decision-making. (Forbes & Milliken, 1999).

Hence, the amount of board meetings and active involvement of the BOD in the meetings are expected to influence firm performance positively and the frequency of board meetings is equally important for high quality of financial reporting (Evans, Evans & Loh, 2002; Hsu & Petchsakulwong, 2010; Vafeas, 1999). Therefore, this study will investigate the impact of frequency of BOD meetings on FSO in the listed companies of GCC countries.

3.1.2.1.4 Board Financial Expertise

The expertise of members of the BOD is important to ensuring the monitoring role of the board and in conducting their roles in an effective manner (Guner, Malmendier &

Tate, 2008). The monitoring of annual reporting process would entail accounting knowledge from the directors so that quality financial reporting is promoted, manipulation is controlled, and the monitoring of information is done to ensure transparent financial information that is eventually furnished to the foreign investors.

In relationship to this, the collapse of major companies like WorldCom and Enron was attributed to the lack of knowledge and expertise of board members (Lanfranconi & Robertson, 2002). More particularly, in the case of Enron, the board members did not possess the correct knowledge to discern the complex financial planning arrangements that employed special target entities. In the WorldCom situation, the members were not equipped with basic accounting expertise and knowledge, and they were unaware of the expenditures capitalized rather than expensed. In both cases, the directors' role in carrying out their duties was questionable (Lanfranconi & Robertson, 2002). Therefore, this study aims to analyze the associated of the financial expertise of directors in the corporate boards with FSO, as a new independent variable.

On the basis of the agency theory, the financial expertise of the members of BOD is invaluable in ensuring that the board's monitoring role is effectively carried out. Despite the lack of a universal definition for board expertise, current studies that have investigated corporate governance in audit cases, showed that the members' financial expertise could be used as a proxy for effective oversight (Carcello et al., 2006; Lee, Mande, & Ortman, 2004).

Considering the findings of the empirical studies conducted by Guner et al. (2008), Hashim and Devi (2007), Jeanjean and Stolowy (2009) and Volpe and Woodlock

(2008), financial expertise is a significant determinant of the financial reporting quality needed to gain the confidence of investors. Also, Agrawal and Chadha (2005) found in their study of U.S. firms that accounting knowledge among external directors is a must initially; they revealed that independent directors are not determinants of the firm's need for restatement of accounts but ultimately, when they tested external directors' financial expertise, they revealed an insignificant relationship, indicating that independent directors in the board of company are effective in minimizing the potential for financial restatements only if they possess financial expertise.

In a related study, several kinds of financial expertise (e.g., financial executives, finance professors and bank executives) were examined by Guner et al. (2008), and they found bank executives serving on a BODs were more beneficial to creditors rather than to shareholders. Moreover, bank managers were related with higher debt despite the fact that a firm had minimal opportunities for investment. The findings concerning the non-bank finance executives showed that financial expertise enhances governance, which results in value-promoting acquisitions. Furthermore, a few studies have shown that financial expertise affected the board. A majority of the financial report users are investors searching for quality financial reports and, hence, this remains the responsibility of the board members.

3.1.2.1.5 Board of Director's Effectiveness (BODSCORE)

The BOD is considered to have significant role in promoting corporate governance because of the separation of corporate management from ownership in modern firms. In other words, such separation necessitates the board's existence to safeguard the shareholder's interests (Rosenstein & Wyatt, 1997). According to the agency theory,

shareholders (principals) need to be protected from the self-serving interests of management (agents), which may go contravene the interests of the principals (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). This agency issue is handled through the oversight function of the board that entails the monitoring of the CEO activities and those of the top executives, creating the strategy of the business, and overseeing the control system. In fact, the BOD is deemed to be the top control mechanism of the firm that holds the authority to go against the management's decisions (Fama & Jensen, 1983).

Furthermore, the agency theory posits the BOD's influence on financial reporting, wherein the BOD is deemed to be a governance tool that counters the self-serving activities of management (Yunos, Smith, & Ismail, 2010). The theory argues that a board assists in enhancing financial reporting in light of its integrity via overseeing management. The BOD also makes sure that the AC and external audit are effective, such that financial reporting is enhanced. The board is responsible for increasing shareholders' value and protecting the interests of various stakeholders against the actions of management (Hermalin & Weisbach, 1991). Based on this, Adams, Hermalin, and Weisbach (2010) concluded that the board can be an effective tool in resolving the many issues with which companies are faced.

In the literature, the opinion regarding effectiveness of BOD in monitoring management can be categorized into two branches. The first one is led by Fama and Jensen (1983) who regard the board as important monitoring mechanism of the companies. The second branch is led by Byrd and Hickman (1992) who stated that the board has little to no actual monitoring role, but rather it serves to provide connections and information

to top management. The first branch of studies is convinced that the BOD is a vital part of a company's governance mechanisms, and it is the top most echelon of the court of appeals for internal agents (Fama & Jensen, 1983). Against this background, independent directors often resolve agency issues between shareholders and management by establishing executive rewards and choosing managers as replacements.

Moreover, a significant portion of literature has responded to the issue of achieving board effectiveness by developing certain board practices and processes to assist the board in achieving effective responsibilities (Rosenstein & Wyatt, 1997). In the present study, the board characteristics are proposed to influence its monitoring effectiveness, and they include size, independence, meetings and the financial expertise of its members.

Foreign investors consider the effective practices of corporate governance critical to their investment decisions (Agrawal & Knoeber, 1996). Several earlier studies have investigated the BOD as a governance mechanism with respect to foreign ownership such as Bokpin et al. (2015); Mangena & Tauringana (2007); Miletkov et al. (2014) and Min and Bowman (2015). This present study is inspired by Agrawal and Knoeber (1996), Cai et al. (2015), Johl et al. (2013) and Ward et al. (2009) who argued that the effectiveness of the governance structure might not be properly explained by employing separate measurements for governance mechanisms in comparison with utilizing multiple measurements of governance mechanisms. Because internal governance mechanisms complement one and other, the efficiency of a given mechanism might rely on the performance of others (Rediker & Seth, 1995; Davis & Useem, 2002). Thus, this

current study provides an additional contribution to the body of literature by investigating the BOD effectiveness utilizing a combination of measurements in unison with respect to enticing FSO.

Therefore, the objective of this present study is to determine whether the effectiveness of the BOD is related to FSO in listed firms on the stock markets of GCC countries. More precisely, the current study concentrates on the four major internal monitoring characteristics of the BOD, that is, independence, size, meetings frequency and financial expertise, which effectively reflect the BOD as a supervisory mechanism. The elements of these characteristics are utilized as a composite score to show the performance of the BOD. This is because those characteristics harmonize each other. For example, an independent directors who lack financial experience may not comprehend financial statements (Agrawal & Chadha, 2005; Alzoubi, 2012; Mustafa & Ben Youssef, 2010), and low regular meetings and an unsuitable size of a board can make it problematic to supervise management and improve the financial reporting quality. Be as it may, the inadequacy of any of the board's monitoring characteristics would result in the ineffectiveness of others and would consequently hamper the effectiveness of the BOD as the internal supervisory mechanism (Goh, 2009; Johl et al., 2013).

3.1.2.2 Characteristics of Audit Committee

3.1.2.2.1 Audit Committee Size

Owens-Jackson, Robinson, and Waller Shelton (2009) have defined the AC as the designated members of corporate board of the companies who take a prominent role in monitoring the company's accounting and financial reporting standard guidelines and

rules. To promote good practises of corporate governance as well as to improve the integrity of financial reporting, the AC as an essential element of corporate governance structure and one of the mandatory committees of the BOD is created to give backing to the board by providing quantitative advice on matters regarding risk, control and managing of the company.

Conventionally, the fundamental function of an AC is overseeing the reliability of the financial statements declared by management (Eyenubo et al., 2017). The size of the committee is often seen to be related to the superiority of control. Persons (2009) and Li et al. (2012) indicated "that the AC size affects corporate disclosures".

Nonetheless, studies have found conflicting results related to AC size and corporate disclosures. Abbott, Parker, and Peters (2004) and Abbott, Park, and Parker (2000) studied forty-one firms that presented deceiving financial statement and eighty-eight firms that disclosed their results on a yearly basis for nine years starting from 1991 to 1999. The study found that committee size had no considerable influence on quality of financial reporting. In contrast, Lin, Li, and Yang (2006) indicated a negative association amid committee size and financial reporting. Kusnadi, Leong, Suwardy, and Wang (2016) investigated the effect of AC size with financial reporting quality; the results indicated that quality of financial reporting will be higher if audit committees have expertise in accounting, finance and supervisory. As a consequence, they said that the most relevant contribution of their paper was that an AC committee should have diversity of expertise and that members should have not only accounting expertise but also those with finance or supervisory expertise.

Besides expertise, the issue of the size of AC committees has been address. In many recommendations/codes including the Cadbury Committee (1992) AC size was extensively addressed. They primarily establish that an AC should have a minimum of three members. In another take on the number of members, Buchalter and Yokomoto (2003) stated that ACs should contain between 3 and 5 members according to the class and size of business.

Prior studies have related the effectiveness of AC to the sufficiency of resources available to them (DeFond & Francis, 2005; Dellaportas, Leung, Cooper, Ika, & Ghazali, 2012; Li et al., 2012; Madawaki & Amran 2017; Mangena & Pike, 2005). This indicates that the AC size is a crucial element in a firm's effective delivery of corporate reporting (Klein, 2002). On this basis, a big AC should be able to identify and tackle potential issues in the annual reporting process as they have more resources to carry out their role of monitoring the management. Similarly, Bédard, Chtourou, and Courteau (2004) contended that bigger AC are more capable of identifying and addressing challenges in the financial reporting process and of offering and guaranteeing effective monitoring via their ample expertise, strength and range of opinions. In this regard, Anderson, Gillan, and Deli (2003) claimed that a larger AC is more capable of providing optimum monitoring owing to the greater number of members to carry out different monitoring tasks of the annual reporting process. Moreover, the percentage of the AC size to total board members is related to the disclosure level (Akhtaruddin et al., 2009).

Li and Qi (2008) and Li et al. (2012) found a relationship between AC size and a positive influence on voluntary disclosure that is invaluable for investors. Nonetheless,

many empirical findings have revealed that a large AC is not related with FSO (Bokpin & Isshaq, 2009; Mangena & Tauringana, 2007). Other studies have found a significant linkage between the size of an AC and disclosure level (Anderson et al., 2003).

In essence, the empirical findings discussed so far indicate that big size of the AC contributes to the effectiveness of AC in monitoring and preventing information asymmetry among external users. Based on the above, a larger AC should be more capable of effective monitoring of management and of minimizing asymmetry of information. Therefore, the current study will examine the relationship between AC size and FSO in listed companies of GCC countries.

3.1.2.2.2 Audit Committee Independence

The AC functions as a contact link between the external auditor and the BOD, and facilities the supervisory procedure by mitigating information asymmetry and improving financial reporting quality (Al-Shaer, Salama and Toms, 2017; Barua, Rama & Sharma 2010; Cooper, 1993; Eyenubo et al., 2017; Kusnadi et al., 2016; Swamy, 2011). The Blue Ribbon Committee (1999), which was created by the New York Stock Exchange and the National Association of Securities Dealers, opined that the AC is the most significant governance component with regards to audit firm schedules because it is accountable for recruiting an external auditor and for monitoring audit quality. Hence, an actively performing AC is a key to ensuring auditor independence and higher standard of financial reporting. Increasing the quality of financial statements has been generally suggested as one of the key advantage of firms establishing an AC (Blue Ribbon Committee, 1999).

The newly introduced reforms in Sarbanes-Oxley (2002) were aimed to support the AC by implicitly assuming that independence of the committee would enhance its effectiveness. To this end, several studies have addressed the independence of directors (Bokpin & Isshaq, 2009; Bokpin et al., 2015; Epps & Ismail, 2009; Mangena & Pike, 2005; Miletkov et al., 2014; Min & Bowman, 2015; Vafeas, 2005). The majority of the mentioned authors concluded that an AC comprising both outside and independent directors is more capable of providing optimum accountability and transparency to a firm and, hence, the characteristic of independence is most convincing feature that reflects the effectiveness of an AC (Haron, Jantan & Pheng, 2005; Klein, 2002; Owens-Jackson et al., 2009).

Importantly, studies dedicated to the same topic were conducted by Bokpin et al., (2015), Bokpin and Isshaq (2009), Mangena and Tauringana (2007), Pincus, Rusbarsky, and Wong (1989) and Rainsbury, Bradbury, and Cahan (2008) who contended that AC's main aim is to help external directors of the board to carry out their monitoring duties to safeguard the interests of investors. From the literature, it is evident that such duties can be effectively achieved through independent members and their qualifications (Aboagye-Otchere, Bedi, & Ossei Kwakye, 2012; Dellaportas et al., 2012; Hidalgo, García-Meca, & Martínez, 2011; Li et al., 2012; Subramaniam, Carey, Kang, Kilgore, & Wright, 2011).

More importantly, Abbott et al. (2004) showed that independent AC members are more concerned with their market reputation more than insider members and, because of this, they are more in providing effective oversight that safeguard the process of financial reporting. The independence of the AC`s members also adds to the effectiveness of the

financial reporting and quality of audit as independent members minimize the fraudulent activities of management and eradicate the issues of financial reporting (Beasley, Carcello, Hermanson, & Lapides, 2000).

Viewed from the agency theory perspective, independent committee members contribute to the strengthening of the monitoring role of the committee, and safeguard investors from the ownership expropriation, and oversee management activities, which, in turn, minimize the information asymmetry (Aboagye-Otchere et al., 2012). This emerges from the fact that independent committee members are not related to management and are therefore capable of enhancing the reporting quality and credibility and, in essence, lessen the information asymmetry for clear and invaluable financial reporting that foreign investors use (Carcello et al., 2002; Mangena & Pike, 2005; Mangena & Tauringana, 2007). In sum, an independent AC is seen as being more likely to protect investors (Chambers, 2005).

Several empirical studies have also reported that audit independence has a key role in improving the ability of AC to bring about the process of corporate financial statements that is characterized by integrity and quality (Aggarwal et al., 2005; Agrawal & Chadha, 2005; Al-Matari et al., 2012; Al-Najjar, 2010; Bokpin & Isshaq, 2009; Bokpin et al., 2015; Mangena & Tauringana, 2007; Miletkov et al., 2014). These findings of these study indicated that the AC independence has a significantly role to play in improving the effectiveness of an AC while Suwaidan et al. (2013) found no relationship between an AC and foreign ownership in Jordan.

The effectiveness of AC in monitoring the financial reporting quality is seen to be related to the independence of AC members, the financial expertise of AC members (Dhaliwal et al., 2010; Kusnadi et al., 2016) and the overlapping membership on audit and remuneration committees (Chandar, Chang, & Zheng, 2012; Liao & Hsu, 2013). Therefore, this current study will examine the relationship between AC independence and FSO in listed companies of GCC countries.

3.1.2.2.3 Audit Committee Meetings

AC meetings, in terms of their frequency and number, serve as an important element of AC effectiveness (Song & Windram, 2004; Rebeiz & Salame, 2006). And thus, the number of frequency meetings of AC in a year is deemed to be a significant attributed to gauge its effectiveness (Lin et al., 2006). In a related study, Menon and Williams (1994) claimed that the monitoring functions of AC include the meeting composition and frequency. According to the Cadbury Committee (1999), an AC in a listed company should have a meeting at least quarterly

Similarly, McMullen and Raghunandan (1996) investigated the effective monitoring of the AC in their study based on a sample comprising 128 firms that reported fraudulent financial activities. Their findings revealed that such firms are less likely to have committee meetings than those who did not report fraudulent financial activities. Also, the relationship between frequency in meetings of AC and firm performance was measured on the return on assets (ROA); the result was a positive linkage between AC meetings and performance.

Moreover, Vafeas (1999) investigated whether the frequency meetings of board is linked to the company performance. His sample comprised 307 firms for the years from 1990 to 1994, and his findings showed that board meetings were inversely associated to company value. More specifically, with an increase in board meetings, the share price decreased. He reached the conclusion that board meeting frequency is a significant element of board operations.

In another related study, Xie, Davidson, and DaDalt (2003) determined whether AC activity obstructs earning management using year observations from a sample of 282 firms. The outcome of the research revealed a negative linkage between the effectiveness of AC and earnings management, which indicates that the former influences the members of the board to conduct their monitoring role more effectively. Along a similar line of study, Abbott et al. (2004) reported that AC meetings frequency was negatively related with financial misstatement by using 88 misstatements of annual reports for the years from 1991 to 1999. They reached the conclusion that AC meetings frequency was significantly and negatively related with misstatements. Thus, this study will examine the relationship between the frequency of AC meetings and FSO in listed companies of GCC countries.

3.1.2.2.4 Audit Committee Financial Expertise

The financial experience of members of the AC has received much attention from regulators worldwide recently. The primary function of AC is to monitor the financial procedures of the company. Thus, it necessary that AC members have financial experience, most especially in the accounting field, to be more effective in overseeing management's financial reporting procedures to produce good quality of the financial

reporting (Badolato, Donelson, & Ege, 2014; Kusnadi et al., 2016). For instance, in the United States, Section 407 of Sarbanes-Oxley Act of 2002 mandates the SEC to implement rules authorizing the AC of government-owned corporations to add a minimum of one member who is very knowledgeable in finance or accounting. The UK Corporate Governance Code 2010 issued by Financial Reporting Council recommends that one member with appropriate financial experience must be a member of an AC (Kusnadi et al., 2016). Corporate governance rules and regulations with 2010 modifications established by Australian Securities Exchange suggests Australian state-owned firms have an AC comprising members with required technical knowledge. It also stated clearly that the committee must have a minimum of one person as member with related experience and knowledge in finance/accounting fields.

The expertise possessed by an AC is deemed to be one of the many important aspects that contribute to AC effectiveness as shown in Abbott et al. (2004), Aboagye-Otchere et al. (2012), Al-Matari et al. (2012), Al-Najjar (2010), Bédard et al. (2004), Bokpin et al., (2015), Dellaportas, Leung, Cooper, Salleh, and Stewart (2012), Haldar and Nageswara Rao (2012), Karamanou and Vafeas (2005), Krishnan and Visvanathan (2008), Mangena and Pike (2005) and Subramaniam et al. (2011). They advocated that a basic premise was that an AC is capable of protecting the interests of shareholders and that qualified members guarantee good financial reporting.

Several scholars have supported this notion. For example, DeZoort, Hermanson, Archambeault, and Reed (2002) claimed that an AC that is capable of safeguarding the interests of shareholders through reliable financial reporting comprises qualified members. Similarly, Dellaportas et al. (2012) stated that, through the committee's

expertise, the technical accounting procedures and standards would be understood and the committee will be more capable of facilitating an accurate financial reporting process. Also, AC members can more effectively conduct their duties when they are knowledgeable in accounting and auditing (Beasley, Carcello, Hermanson, & Neal, 2009; Bushman & Smith, 2003). Meanwhile, Fama and Jensen (1983) reported that members of the AC invest a significant amount of effort to develop their financial expertise to practice their monitoring role and keep their reputation intact in the market.

According to prior studies, a member who possessed expertise can minimize financial restatements in several ways. First, an AC with a member who is knowledgeable in financial matters is more capable of understanding the internal audit program and its outcome than an AC without such a member (Huang & Thiruvadi, 2010). This in turn, guarantees that the mechanisms are smoothly working to increase internal control effectiveness in the detection of material misrepresentations (Abbott et al., 2004). Second, the expertise of the AC enables a deeper comprehension of the issues and risks linked with auditing, and the procedures of auditing for the detection of such issues and risks (DeZoort & Salterio, 2001). As a consequence, AC expertise may show up in the form of a broader scope to handle material misstatements sufficiently (Abbott et al., 2000; Abbott et al., 2004). Lastly, AC expertise adds to the potential of detecting material misstatements, which are relayed to the AC for timely rectification (DeZoort & Salterio, 2001).

Extant studies extensively substantiate that the existence of AC members who have expertise is positively related to the quality of financial reporting. Carcello et al. (2006) found that independent AC members with accounting and financial experience are the

most effective in reducing earnings management that managers sometimes use to mislead investors about the real value of firm. Utilizing the weakness in the internal control as an instrument of financial reporting quality, Zhang and Wiersema (2009) revealed that companies are more possible to have weakness in internal controls should the AC either lack or have inadequate accounting and financial experience and non-accounting and financial knowledge.

Two recent studies have reported results related to the functions of accounting proficiency and non-accounting knowledge. Investigating the structure of AC of 500 S&P sampled firms, Krishnan and Visvanathan (2008) reported that only accounting financial experience was positively related to conservatism, an essential component of financial statements. Alternatively, Goh (2009) found that only non-accounting financial knowledge, without accounting financial proficiency, was positively related to a firm's timeliness in the remediation of material weakness in internal control.

Additionally, Kusnadi et al. (2016) examined the AC characteristics (i.e., financial expertise, independence and overlapping membership) and their influence on the quality of financial reporting in listed companies of the Singapore stock market. The result revealed that the quality of financial reporting was greater where an AC had a combination of experience in finance and accounting. This empirical result argued that accounting proficiency really matters when it comes to improving the financial reporting quality. Therefore, this current study will contribute to the literature by examine the relationship between AC expertise and FSO.

3.1.2.2.5 Audit Committee Effectiveness (ACSCORE)

The AC performs a key role in the overseeing the financial affairs of a firm (Eyenubo et al., 2017). It also provides a supervisory role in ensuring the accounting policies and regulations are strictly adhered to and that a high quality of all financial statements is attained (Blue Ribbon Committee, 1999; Security and Exchange Commission Code (SEC). The SEC (2011) opined that performing the assigned responsibilities of overseeing financial reporting thoroughly requires substantial accounting expertise on the AC. This means that an AC needs the skills to evaluate the rationality of complicated financial substances like a company's accounting reserves, and management's handling of planned audit modifications recommended by external auditors (DeFond, Hann, & Hu, 2005).

According to Owolabi and Dada (2011) an active and well-performing AC offers the following benefits: 1) support and reinforcement of the external auditor's sovereignty; 2) improvement and making the audited financial statements reliable; 3) additional guarantees that corporate rules and regulations are in the best interests of foreign investors and the economy of the nation; 4) strengthening the position of the internal auditor; 5) enhancing the performance of senior management by building confidence in them; 6) mitigating any conflicts that may arise between management and auditors; and 7) creating a better flow of communication between directors, external auditors and management.

Eyenubo et al. (2017) argues that active AC role in ensuring the protection of the audit independence to permit auditors to making correct and selfless judgments without pressure from the management. Also, Dechow, Sloan and Sweeney (1996) opines that

firms that have no AC in place will possibly have overstated financial statements and earnings (Defond & Jiambalvo, 1991).

Several scholars have investigated the connections between AC, audit quality and firm effectiveness. In his study of 11 reinsurance and insurance companies listed in the Indonesian Stock Exchange in 2012, Merawati (2015) showed that the AC, the internal audit, the external audit and corporate financial reporting quality reliability have effects on a business's performance. Vuko, Maretic, and Cular (2015) studied the role and effectiveness of internal device (audit committee) of corporate governance on the performance of credit companies in Croatia using a sample of 78 credit companies listed on the Zagreb Stock Exchange from 2007 to 2012. Collection of data was based on an efficiency index for the audit committee. The findings were that AC of credit institutions have moderate efficiency, and a significant difference in AC performance existed in the period studied. Additionally, a significant difference was recorded between the level of AC performance and the type of the audit company and that no linkage existed between AC effectiveness, the quality of financial reporting and credit institution performance.

Among the elements of corporate governance, an AC is the major element that supports the health of financial reporting. (Salehi, Zanjirdar, & Zarei, 2012 Zaman, Hudaib, & Haniffa, 2011, Vicknair, Hickman, & Carnes, 1993). An AC monitors and evaluates the annual reporting process of a company and acts as an intermediary among internal auditors, external auditors, management, and BOD with the aim of creating a smooth flow of information among them and ensuring transparency and authentic reporting (Fama & Jensen, 1983; Jensen & Meckling, 1976). Salleh and Haat (2014) explicated

that the primary aim of the AC is accomplish the board's legal roles and responsibilities in accordance to the financial reporting standards.

The establishment of AC is based on agency theory, which emphasizes that a company's need for an AC is connected to the extent of its agency problem. An agency problem emanates because of disagreements between control and ownership. AC effectiveness is framed in terms of qualified committee members, those who have the authority and supports to protect foreign investors by ensuring accurate financial statements, internal controls and risk management via proper monitoring of activities (Salleh & Haat, 2014). The above definition encapsulates a detailed summary of literature regarding the effectiveness of AC.

After the Asian crisis of 1997-1998, AC effectiveness was scrutinized and great concern arose concerning it (Allen, 2000). The failure of major corporations around the globe increased this concern and resulted in the establishment of legislation and regulation improvements in the accounting area and the stock markets (Allen, 2000; Clarke, 1998).

The AC's monitoring role helps to enhancing the information quality shared between firm owners and managers (Rouf, 2012). More specifically, the AC has roles to guarantee that the annual reporting and controlling systems are ensured in terms of their quality. In fact, the committee is a component of the set of monitoring tools that are available to be used to mitigate information asymmetry between insiders and outsiders (Kim & Soon, 2007). Other studies in the literature like Rouf (2012) and Kyereboah-Coleman (2008) went so far as to describe the AC as the most reliable device used to safeguard the interests of the investors.

Despite the importance of the construct, studies have yet to explore the linkage between the effectiveness of AC and FSO and, in this regard, the current study will examine the relationship between the effectiveness of the AC characteristics (e.g., size, independence, frequency meetings, and the financial expertise of members) and FSO.

3.1.2.3 Audit Quality

Audit quality is an important element of CG, irrespective of whether it is complementary and other components of CG (Choi, Kim, Liu & Simunic, 2008; DeFond & Francis, 2005; Fan & Wong, 2005). Shareholders want to maximize the return on their investments or value of shares whereas managers are more interested in the personal consumption of the resources of a firm at the peril of shareholders' benefits. In this regard, an external auditor can make important contributions to corporate governance efforts through a reduction of agency challenges between shareholders and managers. According to Eyenubo et al. (2017) external audits are provided to minimize the information conflict between foreign investors and managers as it lends credibility to financial statements.

In regard to this, audit quality generally refers to the joint possibility of the detection and reporting of errors in the financial statements (Al-Ajmi, 2009; Okike, 1999; Boone, Khurana & Raman, 2010; Choi, Park, & Yoo, 2007; DeAngelo, 1981; Defond, 1992; Kilgore, 2007; Mansi, Maxwell & Miller, 2004; Ghosh & Moon, 2005; Watts & Zimmerman, 1986). Evidence has been reported in the literature concerning the positive role of auditing and audit quality in confining biased financial reporting that are invaluable to investors (Becker, DeFond, Jiambalvo, & Subramanyam, 1998; Kim, 2010; Sajjadi & Arabi, 2009).

Importantly, previous studies have found that Big 4 audit firms provide higher quality audit performance (Al-Shammari & Al-Sultan, 2010). With regards to the Big 4 auditors, Fan and Wong (2005) said that they play an important corporate governance role in the context of emerging markets in which firms have highly concentrated ownership structures. In relationship to this, high-quality auditors may urge clients to disclose firm information that is authentic and detailed in a timely manner; this results in higher protection of foreign investors.

According to financial analysts, external auditors are considered to play an information intermediation role between major shareholders and external minority shareholders. Their knowledge and information concerning client business brings about the dissemination of more dependable firm-specific information throughout the market. In the United States and other markets, financial analysts provide more extensive and broader market and industry information compared to firm-specific information (Chan & Hameed, 2006; Piotroski & Roulstone, 2004). Their activities regarding information production bring about the transference of intra-industry information and maximize the synchronicity.

In the context of the GCC, namely, the United Arabic Emirates, Bahrain, Saudi Arabia, Oman and Qatar are also world economic powers, and they share some commonalities in their economic, cultural and political aspects that counter the differences (Al-Hussaini et al., 2008; Al-Muharrami et al., 2006; Aljifri & Moustafa, 2007; Chahine & Tohmé, 2009). In the past, the challenges related to the functioning of ACs in these countries has led to limitations in foreign ownership due to the weak implementation

of accounting standards and auditing rules and hesitation drawn from the politics and economies of these countries.

In contemporary times, the Gulf Cooperation Council countries have developed market strategies and market policies to improve their economies. Typically, these economies have been buoyed by low-interest rates and stable geopolitical environment. They have also worked diligently to improve their markets by encouraging foreign ownership, creating practical reform measures, enlarging privatization programs, lifting bans on investments, and enhancing accounting and auditing regulations. They have also attempted to diversify their economies by reducing the dependency on hydrocarbons. In doing so, they have developed their corporate sectors and have created and enacted various codes of corporate governance (Al-Shammari, Brown & Tarca, 2008; Bley & Chen, 2006; Hussain et al., 2002; Omran, Bolbol, & Fatheldin, 2008).

Moreover, the advent of globalization, liberalization and the linking of stock markets have contributed to the pressure for change. Several other drivers of change include regional and international investors in terms of the growing entry of foreign companies in the Gulf region and the considerable number of Western expatriates occupying senior management situations who familiar with global corporate code standards. The inclination towards diversification of the economy and the shift towards sustainable business models for later generations have boosted businesses in the GCC. Based on this, in the long-run the most optimum way to realize sustainability, prosperity and job creation is to ensure that businesses provide investors with good returns in the present time for the future.

Despite the fact that the demand for audit services in GCC region is experiencing an increase, concerns remain regarding audit quality, particularly after the five failures of audit in the region, three Bahrain and two in Oman and due to the lack of qualified audit reports. Big 4 firms were involved in two of the cases (Al-Shammari et al., 2008; Asiri, 2008).

According to Al-Shammari et al. (2008), the governments of GCC heavily intervene in legal financial arrangements and legal issues. One prominent feature of the corporate environment dominance of three groups of stockholders, namely, family, government and institutions, and a particular feature of the corporate environment is the large role of royal families. The dominance of such owners may be due to lack of well-developed markets that will help to promote corporate control and weakness in investor protection (Chahine & Tohmé, 2009; Omran et al., 2008; Saidi, 2011).

In the literature, six notable audit quality measures used with respect to audit quality, and they are Big 4 auditor, signed or absolute discretionary accruals, going-concern opinions, audit fees, accrual equality and meet/beat quarterly target. In this study, the focus is confined to the Big 4 auditors as a measure of audit quality. Therefore, this study will examine the relationship between the audit quality (BIG4) and FSO in listed companies of GCC countries.

3.1.3 Ownership Structure

3.1.3.1 Family Ownership

Family ownership is broadly defined as a "company in which one person or a group of related persons is the controlling shareholder" (Rau, Astrachan & Smyrnios, 2018).

Astrachan, Klein, and Smyrnios (2002) and Rau et al., (2018) noted that a "family can influence a business via the extent of its ownership, governance, and management involvement" (p. 48). They noted that

> *"Family influence through board and management can be measured as the proportion of family representatives who are members of the board or management boards. In contrast, indirect influence might mean members of a board who are named through family members but are not family members themselves. A family's influence through this means, although indirect, is usually considerable"* (p. 48).

In the GCC countries, although most corporations are owned by families, little to nothing is known concerning the way family ownership influences FSO. In this regard, a good source of competitive advantage may be family ownership likely through reduction in the costs of managerial agency and the increased value of the firm (Demsetz & Lehn, 1985). Importantly, the founder families of the firms have the possibility of a steady attendance in their companies while their extensive control may make them to be willing to give consideration to a long-term point of view. They ensure long relations with outside entities (Anderson & Reeb, 2003). On the negative side, families may be more inclined towards using their power for self-serving purposes that may go against the interests of foreign investors. Consequently, sub-optimal investor's decisions, increased rewards and ongoing employment of under-qualified owners in management could lead to increase the agency costs (Fama & Jensen, 1983; Shleifer & Vishny, 1997). Moreover, family ownership has been revealed to be against risk-taking and, hence, they often end up destroying the firm value (Shleifer & Vishny, 1997).

Studies have found a positive relationship between family companies and company performance. Specifically, Anderson and Reeb (2003) examined family firms and firm performance relationship in the context of the United States and revealed that company performance of family firms is better than their counterparts (non-family firms). Added to this, Maury (2006) revealed that family companies in Western Europe that are controlled and managed by founding families generate more profits compared to non-family firms.

However, another stream of literature reveals contrasting empirical findings. For instance, Claessens et al. (2000) indicated that in East Asian countries, family firms did not perform as well as their non-family counterparts. Similarly, Coombes & Watson (2001), Faccio, Lang, and Young (2001), Jiang and Habib (2009) Lim, How & Verhoeven (2014), How, Verhoeven, and Wu (2008) and Mobius (2001) indicated that family control may harm the interests of minority shareholders in East Asian firms as transparency is almost non-existent. In Norway, Barth, Gulbrandsen, and Schønea (2005) related that family companies owned and managed by families did not perform as well as non-family ones.

Contemporary studies have explained the importance of the family structure and family management in companies owned by families. In the context of the United States, founder-CEO firms performed better than non-family companies until descendants take the position of CEO, in which case the value of the company is destroyed. In the case of Canada, firms controlled by families showed weak financial performance (Anderson & Reeb, 2003). Meanwhile, in the United States, France, Germany and the United Kingdom ineffective management practices were found in family firms managed by the

founder. In Thailand, greater involvement of founders' families was related with lower performance levels, particularly after the passing of the founder (Bertrand, Johnson, Samphantharak, & Schoar, 2008). This will negatively affect attracting foreign inverters because foreign investors avoid companies with poor performance.

The majority of the businesses in the GCC are family owned and controlled. Also, in listed firms owing to the lack of guidelines, majority owners dominate firms indicating that ownership rights and controlling management remain with small family members (GulfBase, 2015; Santos, 2015).

Contrary to the agency conflict between shareholders and managers in other countries, in the GCC, agency issues are more likely to arise between family shareholders and their minority shareholders. When the former is given an opportunity to serve their own interests at the expense of the firm, and when incompetent managers hold office due to their family connections, family ownership influences FSO. Therefore, the current study will investigate the relationship among family ownership and FSO.

3.1.3.2 Local Institutional Ownership

The most important external monitoring and control mechanism that impact corporate governance is the presence of institutional investors in equity ownership. Institutional investors are particular groups that are more informed about financial activities to enhance the value of companies compared with foreign investors Al Mazan, Hartzell and Starks (2005), Bos & Donker, (2004), Donnelly & Mulcahy, (2008). Dong and Ozkan (2008), Karamanou and Vafeas (2005), Shleifer and Vishny (1997) and Gillan and Starks (2000) Lins (2003), Mitton (2002) argued that, compared to the individual

investors, institutional investors are professional shareholders who have the ability to collect and to treat information that will enhance a company's performance. Institutional investors constitute one of the most important components to reduce the agency problem because they are better able to monitor the management compared with foreign investors (Al Mazan et al., 2005).

Based on the above discussion, it can be argued that the institutional investors are not only better informed, but they usually focus on the long-term performance of the firm. Moreover, they argue that this type of investor may help to reduce any opportunistic financial reporting for two reasons. The first one is because they possess a substantial portion of the firm's shares, so they have the motivation to monitor the activities of management to ensure that managers do not engage in non-value maximizing behaviour. The second is they are able to collect and analyse information about the firm.

Moreover, the potential benefits from their monitoring are more likely to exceed the costs of these activities (Bhattacharya & Graham, 2009). Therefore, it is expected that the large institutional investors will play a vital monitoring role in a firm's corporate governance structure and become actively involved in influencing the strategic plans of firms if not their management practices (Cremers & Nair, 2005).

According to Hashim and Devi (2007) and Ruiz Mallorquí and Santana-Martín (2009), institutional investors enhance the effectiveness of corporate control in two ways. First, when they plan to invest, they first seek information about the company's corporate governance effectiveness and avoid those firms whose managers are entrenched in their ways of management. Second, compared to individual investors, institutional investors

have a high stake in the company's shares, which gives them a stronger incentive to control management. Al-Najjar (2010) also argues that the institutional investors improve the quality of the corporate governance through their disciplinary power. According to Chahine and Tohmé (2009), institutional investors provide better mechanisms to protect minority shareholders' interests compared to other internal corporate mechanisms such as board size and the percentage of outside directors, which may not protect the minority shareholders' interests in companies that are controlled by the largest shareholders.

The empirical findings concerning whether institutional investors perform an effective role remain ambiguous. For instance, Al-Najjar (2010) studied the factors that influence the decisions of institutional investors to invest utilizing non-financial data from Jordanian. The outcomes revealed that the local institutional investors in Jordan consider a firms' capital structure, profitability, business risk, asset structure, liquidity, growth and firm size before making their decisions to invest. McConnell and Servaes (1990) revealed a positive association between local institutional investors and the firm value, while Seifert, Gonenc, and Wright (2005) revealed a negative relationship between the same. Meanwhile, Short and Keasey (1999) revealed that local institutional investors played no role in determining the value of the firm.

The majority of the emerging countries have investors who are not playing an effective role in their monitoring of management owing to the underdeveloped domestic stock markets and institutions, a lack of regulatory systems, and political limitations (Chakrabarti et al., 2008). This may be also attributed to the cooperation of investors with managers as opposed to questioning their decisions to safeguard their potential

business relationships with the firms (Cornett, Marcus, Saunders, & Tehranian, 2007; Pound, 1988). They end up being loyal to the corporate management and holding shares while letting management carry out self-serving actions that are to their detriment (Ferreira & Matos, 2008).

In the GCC, large firms and local institutional investors such as banks, insurance and pension funds (e.g., Social Security Corporation Investment Unit) hold high levels of shares. The current study is interested in whether these local institutional investors, which monitor the management, will attract FSO. Therefore, this study examines the relationship between local institutional ownership and FSO in GCC countries.

3.1.4 Performance (Tobin`s Q)

Performance is regarded as the ability of any firm to manage and gain the resources in different ways with the purpose of developing a competitive advantage (Iswati & Anshori, 2007; Omondi & Muturi, 2013). Agency theory posits the distinction between the firm performance and shareholder wealth (Jensen & Meckling, 1976). In Appuhami's (2007) study, the author examined the effect of the value creation efficiency on the capital gains on shares among investors by using data gathered from Thai companies listed on the stock market. He empirically found that a firm's intellectual capital was significantly and positively related to the capital gains of shares of investors. It can thus be stated that capital gain is one of the aims of investors, where they sell shares when the market price is greater than the purchase price for capital gain. Investors are urged to buy firm's shares, which are characterized by increasing market price. This is notable in firms with high performance.

The literature, therefore, abounds with studies that have investigated financial performance as an independent variable. For instance, Vijayakumar (2010) studied the level to which financial performance indicators (book value, earning per share, dividend per cover, rate of growth, and dividend yield) impacted stock prices. The author employed correlation analysis, factor analysis and multiple linear regression to conduct an analysis of the relationship and found that all variables were positively related with the equity share market prices. High performing firms may make use of corporate social responsibility disclosures to inform stakeholders of their reputation with incomplete information (Fombrun & Shanley, 1990). High performing firms may also maintain their positive relationships with bankers and investors and generate new access to capital (Spicer, 1978).

The performance of the firm is a sure sign to investors as it directly influences the return on investments (Eun, Resnick & Sabherwal, 2012). After the release of financial reports, an efficient market is one that readily absorbs the information and modifies the stock prices in accordance with this information (Appuhami, 2007). The implementation of financial performance reports is invaluable to investors as it assists them in making informed decisions and in predicting a firm's future financial performance with the provision of authentic accounting practices and transparency (Appuhami, 2007). This provision tends to minimize earnings manipulations and improve the efficiency of stock markets. According to Menike, Man, Street, Dalian, and District (2013) financial statements comprise different kinds of information that can be divided into two, mainly accounting information and non-accounting information.

More specifically, accounting information refers to information that provides a run-down of its use and provides financial transactions to offer external reporting to external parties (stockholders, investors, creditors and government agencies). Meanwhile, non-accounting information refers to information that is immeasurable in terms of financial terms when investors make their investment decisions. For example, this includes disclosure of a company's environmental, human rights, and social information.

Most authors who dedicated their work to this topic have concentrated on the consequences of control mechanisms on the performance of a company owing to proposition of the standard agency theory; according to the theory, management compensation programs are linked to company performance (Jensen & Meckling, 1976). On the basis of the above premise, reward is tied to duty performance and thus, management will become risk-averse (Gomez-Mejia, Larraza-Kintana, & Makri, 2003; Lin, Liao & Chang, 2011). This will shift the focus of executives to short-term performance rather than long-term performance. Over time, this could negatively affect the investors' stock in the company.

Several authors around the globe have also studied the relationship between firm performance and foreign ownership in developed and developing countries. Dahlquist and Robertsson (2001), Haldar and Rao (2012) Miletkov et al. (2014), Mangena and Tauringana (2007) and Kim et al. (2010), found a positive significant relationship between firm performance and foreign ownership. While Bokpin and Isshaq (2015), Bokpin and Isshaq (2009), Min and Bowman (2015) Suwaidan et al. (2013), found an insignificant relationship between firm performance and foreign ownership.

In GCC countries, on the basis of the reports published by GulfBase (2011-2015) and Authority (2012, 2013, 2014 and 2015), the performance of the GCC markets in the current period indicated that the overall performance went through a fluctuation and declined in 2011 (See Table 1.2).

Table 1.2
Statistics of Market Performance

Country	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**YTD Aug-15**
Saudi Arabia	32.30%	7.70%	-4.20%	6.30%	25.50%	-2.40%	-9.70%
UAE – DFM	13.60%	-9.60%	-17.00%	19.90%	107.70%	12.00%	-3.00%
UAE – ADX	20.20%	-0.90%	-11.70%	9.50%	63.10%	5.60%	-0.80%
Qatar	4.90%	24.80%	1.10%	-4.80%	24.20%	18.40%	-5.90%
Oman	27.40%	6.10%	-15.70%	1.20%	18.60%	-7.20%	-7.40%
Bahrain	-20.40%	-1.80%	-20.10%	-6.80%	17.20%	14.20%	-8.90%
MSCI EM	78.70%	15.80%	-20.20%	15.40%	-5.00%	-4.60%	-14.80%
MSCI GCC	14.60%	16.40%	-10.00%	4.00%	25.60%	-2.20%	-7.20%

Source: Securities and Commodities Authority. (2012, 2013, 2014 and 2015)

This fluctuation and decline can be attributed to the lack of capital that businesses need for the expansion and operation that is parallel to the decline of FDI inflows that stem from the lack of investors' confidence in GCC companies, which may be related to their corporate governance mechanisms. In other words, the ineffective corporate governance mechanisms in the businesses in GCC countries were barriers to the performance of companies. This calls for further studies of the Gulf region to investigate the degree to which corporate governance could affect the performance of

firms in various business sections. Along the same line, according to the reports and opinions economic experts, one main reason behind the local economic crisis is the vulnerability of the firms brought about by their lack of corporate governance practices (Abdallah & Ismail, 2017; Al-Matari et al., 2012).

In term of the measurement of firm performance, the measurement of performance is described as the transformation of the performance reality into organized limited symbols that can be communicated and reported under similar conditions (Lebas, 1995). The measurement of performance refers to the quantification of the effectiveness and efficiency (Neely, Gregory, & Platts, 2005). In the field of contemporary management, performance management is more than mere quantification and accounting (Koufopoulos, Zoumbos, Argyropoulou, & Motwani, 2008). The measurement of performance can generate information that could contribute to performance monitoring, communication and motivation, progress and shed light on problems (Waggoner, Neely, & Kennerley, 1999).

In the context of the developing countries, several empirical studies have adopted accounting-based measurements including ROA and market-based measurements like Tobin's Q (Amran & Ahmad, 2009; Ang & Ding, 2006; Chowdhury, 2010; Dey, 2008; Herly, 2011; Irina & Nadezhda, 2009; Jackling & Johl, 2009; Kapopoulos & Lazaretou, 2007; Lin et al., 2011; Najid & Rahman, 2011; Omran et al., 2008; Meyer, 2003; Reddy, Locke, & Scrimgeour, 2010; Sánchez-Ballesta & García-Meca, 2007; Sanda, Mikailu, & Garba, 2010). The above-mentioned studies measured performance with the help of both ROA and Tobin's Q. Tobin's Q is considered to be one of the most significant firm performance measures and is described as the ratio of the market value of assets

to the replacement value of assets (Ganguli & Agrawal, 2009; Shah & Hussain, 2012; Shan & McIver, 2011). It determines the value of the firm in the financial markets and is measured by the market value of equity added to the book value of the debt divided by the book value of the total assets.

Therefore, the current study will examine the relationship between firm performance (Tobin's Q) and FSO.

3.1.5 The Adoption of the English Language in External Financial Reporting

In this study, the use of English as an external reporting language is examined in relationship to FSO. This contributes to literature of international business on the role of language in FSO. In this regard, annual reports are documents that comprise various components including a summary of the firm, management discussion, a letter from the chairman, an analysis of the firm, its financial performance, and a complete set of financial reporting coupled with notes. According to prior studies Blessing and Onoja (2015) and Vergoossen (1993), investors use the annual report to make investment decisions. Studies have noted the significance of the annual report, but Barker (1998) stated that research has largely focused on the role of announcements in financial statements.

In a related study, Beneish and Yohn (2008) and Graham, Harvey and Huang (2009) explained the obstacles facing foreign investors with multitude costs for information processing that act as information-based limitations to investments. They argued that the language that employed in a financial report is a probable information-based limitation and prevents cross-barriers investment. Similarly, Hau (2001) noted that

culture and linguistic borders almost always coincide with international barriers and, as such, they lead to considerable information barriers. If such barriers to foreign investment cover the difficulties of understanding the narrative elements of the financial report, therefore, the language employed may influence the decisions of foreign investors.

Also, studies in literature stated that communication issues influence the decisions of investors. For example, Grinblatt and Keloharju (2001a) indicated that foreign investors are more inclined to trade in stocks of companies that are presented in the same language with the same cultural background. More specifically, they showed that, in the context of firms in Finland that published their financial reports in Swedish and Finnish, they cover a significantly large portion of Swedish-speaking investors in both countries.

Meanwhile, in another related study, a common language was found to promote the cross-listing of stocks in multiple countries, which led the authors Pagano, Röell, and Zechner (2002) to believe that such clustering may be attributed to the flow of information. Also, Ferreira and Matos (2008) conducted an analysis of country-level determinants of domestic institutional ownership in the U.S. context and found that local institutional investors in the country indicated an evident tendency to gravitate towards English-speaking countries. Moreover, a comparison of the behavior of foreign and domestic investors on the Helsinki Stock Exchange was conducted by Kalev, Nguyen, and Oh (2008), and they revealed that information concerning listed companies in the stock markets is more evident to domestic investors who are free from

barriers of language, distance or culture. Their finding indicates that language barriers influence the decisions of foreign investors.

In relationship to the above stream of discussion, information asymmetry arises owing to the possession of secret information of some investors concerning the company that other investors do not possess. Theoretical models proposed in prior studies indicate that more public disclosure alternatives for the private information minimize asymmetry in information (Kim & Verrecchia, 1991; Verrecchia, 1982). Several studies have revealed that any disclosure leads to the lessening of information asymmetry between those who are informed and those who are not among investors (Diamond & Verrecchia, 1991). Indeed, empirical evidence shows that more disclosure minimizes such asymmetry (Leuz & Verrecchia, 2000).

Therefore, it stands to reason that an annual report drawn up in English language would provide access to disclosure for investors who are not proficient in the local language. Consequently, this minimizes the asymmetries in information between the foreign and domestic investors. This is consistent with the position of signaling theory that firms operating internationally may leverage financial statements in English language as this can be understood by users including foreign ones (Dumontier & Raffournier, 1998; Merton, 1987).

Based on recent studies, narrative communication is crucial to financial reporting. For instance, Tetlock, Saar-Tsechansky and Macskassy (2008) found that linguistic media content encapsulates aspects of the fundamentals that are difficult to quantify, while Nickerson and De Groot (2005) stated that firms are largely dependent on the non-

financial contents of the financial report to inform them of their stance compared to their rivals. Research also showed that language within narrative communication is invaluable. Furthermore, Hales, Kuang, and Venkataraman (2011) evidenced that, despite the fact that financial reporting is often thought of in terms of numbers, language is the standard via which firms relay significant information of their past and predicted future firm performance. The authors indicated that the language employed in annual reporting is a significant factor for end-readers (investors).

Finally, in a study that focused on European firms, Jeanjean et al. (2014) determined whether employing a common language (i.e., English) for external reports influenced the decisions of investors. The authors contended that issuing English annual reports may minimize the information-processing costs of foreign investors and increase their company awareness and information.

In GCC countries, the majority of listed companies draw their annual report using Arabic language (Kern, 2012). It can be argued that the adoption of English languageage would provide access to disclosure for foreign investors, who are not proficient in the local language and consequently minimizes the asymmetries in information between both foreign and local investors. Therefore, this study will examine the relationship between use English language for annual reports and FSO in listed companies of GCC countries.

Table 3.2 summarizes the findings of previous studies of foreign ownership in developed and developing countries.

Table 3.2
Summary of Previous Studies of Foreign Share Ownership

Author(s), Country	IVs	DV	Results
Miletkov et al. (2014) United States	Board independence Board size CEO duality	Foreign ownership	Foreign ownership is positively related to the independence of the board, but insignificantly related to board size.
Suwaidan et al. (2013) Jordon	Board independence Board size Existence of AC CEO duality	Foreign ownership	Foreign ownership is positively related to the independence of the board, but insignificant related to board size.
Mangena and Tauringana (2007) Zimbabwe	Board independence Board size AC independence AC size	Foreign share ownership	The results show there a significant association between board independence and AC independence with foreign share ownership. But it insignificantly related to board size and AC size.
Jiang & Kim (2004) Japan	Market capitalization Return on assets Market-to-book ratio Leverage Systematic risk	Foreign ownership	Foreign investors tend to hold stocks in firms of large size, better accounting performance, low information asymmetry and low leverage
Min and Bowman (2015) Korea	Outside directors Book-to-market Dividends Market liquidity	Foreign equity ownership	The results show the effect of outside directors, book-to-market, dividends and market liquidity on foreign investment is both statistically and economically significant.
Bokpin and Isshaq (2009) Ghana	Corporate disclosure Market-to-book value ratio ROE Market capitalization Leverage	Foreign share ownership	Found a positive relationship between disclosure and market capitalization with foreign share ownership. Found no significant relationship between ROE and market-to-book value ratio with foreign share ownership.

Table 3.2 (continued)

Author(s), Country	IVs	DV	Results
Waqas et al. (2015) South Asian countries	Exchange rate Inflation GDP growth rate Interest rate	Foreign portfolio investment	The findings of this study show that foreign portfolio investors focus on the stable macroeconomic environment of country.
Kim et al. (2010) Korea	Outside directors Firm size ROA Tobin's Q	Foreign ownership	The results indicated that foreign equity ownership is determined by resident outside directors and firm-specific attributes such as, Tobin's Q and ROA.
Jeanjean et al. (2014)	Use of the English language for financial reporting	Foreign ownership	The results show a positive relationship between the use of the English language for financial reporting and foreign ownership.
Al-Najjar (2010) Jordan	Leverage ratio Dividend policy Profitability Business risk Asset tangibility Liquidity. Growth rate Firm size	Institutional investors	The results indicated that the institutional investors consider large firms, profitability, business risk, asset structure, liquidity assets, and growth of firm when they make their investment decisions.
Dahlquist and Robertsson (2001) Sweden	Institutional investors Firm size Leverage ROE Liquidity	Foreign ownership	The results indicated that there are significant associations between institutional investors, firm size, leverage, ROE and liquidity with foreign ownership.
Haldar and Rao (2012) India.	Independence of the chairman Independence of the directors Committee membership Board meetings	Foreign portfolio investment	The findings of this study show a positive relationship between corporate governance and foreign portfolio investment.

Table 3.2 (continued)

Author(s), Country	IVs	DV	Results
Leuz at al. (2009) 29 countries	Corporate governance Disclosure Family ownership Firm size Leverage Book-to-Market	Foreign portfolio investors	Foreigners invest less in firms that reside in countries with poor outsider protection and disclosure and have ownership structures that are conducive to governance problems. The results also show a significant relationship between firm size, leverage, book-to-market, and foreign ownership.
Kansil and Singh (2017) India	Size Profitability Risk Growth	Foreign institutional ownership	Results highlight that the stakes of foreign institutional investors would increase in relatively profitable, growing and larger firms with low leverage.

Note: IV = Independent Variables and DV = Dependent Variable.

3.1.6 Control Variables in this Study

The present study considers firm size, leverage, political risks, exchange rate risk, inflation risk, and economic growth (GDP) as control variables.

3.1.6.1 Firm size

Firm size as a control variable has been overtime justified by the findings in the context of companies having different characteristics. Among them, Al-Najjar (2010) investigated the determinant factors of institutional investors' investment decisions through the use of non-financial data from Jordan. He found that the Jordanian institutional investors include firm size in reaching investment decisions. In other studies, Dahlquist and Robertsson (2001) and Jiang and Kim (2004) evidenced a positive linkage between FSO and the size of the company, while Leuz et al. (2010) indicated that firm size plays a crucial role in explaining foreign investment.

Firm size influences FSO and is usually used as control variable in most literature regarding corporate governance (e.g., Bokpin and Isshaq, 2009; Mangena and Tauringana, 2007; Miletkov et al., 2014). The impact of firm size upon FSO is evident in the findings, which illustrate that foreign investors are attracted to larger companies.

3.1.6.2 Leverage

Ross (1977) and Stiglitz (1985) noted that higher leverage may be deemed as a positive indicator of the ability of the firm to serve a significant level of debt. Nevertheless, too much debt makes a firm susceptible to bankruptcy, confines the ability of the firm to raise new debt, and could bar a firm from taking advantage of opportunities for investment (Harris & Raviv, 1990; Myers, 1977) indicating that leverage has an ambiguous influence on FSO.

Bokpin and Isshaq (2009) and Miletkov et al. (2014) reported a negative and significant relationship between leverage and foreign share ownership, with the argument being that foreign investors either steer clear of local firms having greater leverage, or they minimize their investments in these firms. However, Harris and Raviv (1990) and Myers (1977) indicating that leverage has an ambiguous influence on foreign ownership. The present study measures leverage using total liabilities divided by total assets.

3.1.6.3 Political Risks

Within international business literature, political risk is widely believed to hamper corporate investment (Al-Jaifi et al., 2016), thus, political risk is one determinant relevant to foreign investment. Political risk has been defined as the risk emanating

from government instability, socio-economic conditions, investment profile, internal and external conflicts, corruption, military in politics, religious tensions, law and order, ethnic tensions, democratic accountability, and bureaucracy quality (Al Khattab, Anchor & Davies, 2007).

Prior researchers found that political instability in the host country is a major determinant of foreign investment (Al Khattab et al., 2007; Bitzenis, Tsitourasb, & Vlachosa., 2009; Iloiu & Iloiu, 2008; Luiz & Charalambous, 2009; Baek & Qian, 2011; Schneider & Frey, 1985; Quer, Claver & Rienda, 2017). They found that South African financial services firms considered country governance and political risks as critical factors before investing in sub-Saharan African markets. They revealed that, without a stable political environment, predicting the sustainable long-term growth prospects of foreign investments is difficult. Iloiu and Iloiu (2008) also noted that political risk is an important factor when considering foreign investment. Due to the unpredictability of the political environment in the host countries, MNEs opt to enter with heavy resource commitments.

This study focuses on GCC countries, and the GCC region is presently surrounded by several sources of critical economic and political uncertainties: First is the debt crises of the European Union and the United States. Similar to the world economy in its entirety, the GCC is susceptible to overflow from economic mayhem in Europe and America. Second is the Arab Spring. The agitation for democracy and freedom in many parts of the MENA region caused uncertainties, which had tremendous influence on the region's financial markets. With transitions in government regimes in Egypt, Tunisia, and Libya, the disorders in Syria, and public disgruntlement in some countries of the

Gulf region, political uncertainty remains a serious problem affecting most of the GCC financial markets. Third is the Iran-Israel conflict. The Middle Eastern region has been a geo-strategic trouble-spot for quite some decades. Early from 2012, political risks have been substantially associated with a possible military battle between Israel and Iran. The intensifications of such type of issues remain main risk factors on their financial markets in the nearer and broader vicinity, especially the GCC (Kern, 2012). Therefore, political risks are include as a control variable.

3.1.6.4 Exchange Rate Risk

Due to the importance of currency risk to foreign investors, previous studies have examined exchange rate risk as one of the macroeconomic uncertainties in the host countries and its influence on foreign portfolio investment (FPI) flows (Bleaney & Greenaway, 2001; Carrieri, Errunza, & Majerbi 2006; Darby, Hallett, Ireland, & Piscitelli, 1999; Ersoy, 2013; Eun & Resnick, 1988; Froot & Stein, 1991; Waqas et al., 2015).

The investment decisions in a particular economy depends on the overvaluation of the currency of the host country compared with that of the investing country's currency. While the appreciation of currency could raise foreign investment inflow due to higher purchasing power of local consumers, it can also be said that depreciation could increase foreign investment inflows due to the rise in the relative wealth of MNEs and this, in turn, increases their capacity to invest through the reduced cost of capital (Waqas et al., 2015). Stable currency in the host country should be able to draw greater attention for foreign portfolio investment inflows (Waqas et al., 2015).

Previous studies have found that exchange rates risks, which affect the profitability of the tradable-goods sector and the value of repatriated profits, significantly affect a foreign portfolio investment (Waqas et al., 2015). Exchange rate risk also could affect the profitability and debt burdens of firms, and this might, therefore, influence investment decisions (Luiz & Charalambous, 2009). Darby et al. (1999) found a significant relationship between the risk of exchange rate and foreign portfolio investment. According to Waqas et al.'s (2015) study of China, India, Pakistan and Sri Lanka during the period from 2000 to 2012, the real exchange rate was positively significant only for the case of China, while it had no effect on FPI instability regarding the other three countries. The instability of the rate of exchange did not occur in China because the country did not partake in trading primary goods, so RER had a significant and positive influence on the instability of portfolio investments (Bleaney & Greenaway, 2001). Moreover, China is intentionally increasing the value of her currency, and this has, therefore, decreased returns and caused an increase in fluctuations.

Economic stability can be a vital factor for the growth of a stock market and attracting foreign portfolio investments. The more stability in the macro economy, the more firms become viable and reliable, and, thus, more foreign investors partake in the stock market (Adam & Tweneboah, 2009). From the above discussion, it can be argued that the stable currency in the host country should be able to draw greater attention for foreign portfolio investment inflows. Therefore, this current study will examine the relationship between exchange rate risk and FSO in GCC listed companies as a control variable.

3.1.6.5 Inflation Risk

Inflation risk is the variable of economic risk. High inflation could show the failure government of a host is nation to balance its budget and signal the inability of its central bank to carry out proper monetary policy (Schneider & Frey, 1985). Hailu (2010) stated that inflation rate is a factor that shows the overall financial performance of host economies. Thus, the inflation rate is usually used as an indicator of macroeconomic instability, reflecting the presence of internal economic pressure or the inability to restrict money supply (Bouoiyour, 2007; Bosworth, Collins & Reinhart, 1999; Busse & Hefeker, 2007; World Bank, 2005). Moreover, inflation has a great influence on asset valuations, profits and credit availability. Predictable and volatile inflation rates in a host economy could make foreign investors hesitate in embarking on an adventure that might cause the loss of capital.

Some studies have revealed the expectation that high inflation will hinder foreign investment inflows (Amal, Tomio & Raboch, 2010; Bissoon, 2012; Bouoiyour, 2007; Hailu, 2010; Kok & Ersoy, 2009; Waqas et al., 2015; Yang, Groenewold & Tcha, 2000). In general, high inflation rate can affect equity return in at least two ways. First, this can result in future weaknesses in economic performance, thereby eroding company profits and making constant the real discount rates. The consequences for future real dividends may have a direct negative effect on unexpected part of asset returns. Secondly, it can increase the risk involve in investments; therefore, foreign investors will require an increase of return because the rate of return linked with an increase in inflation uncertainty (Azar, 2010). Therefore, this current study will examine the relationship between inflation risks and FSO in GCC listed companies as a control variable.

3.1.6.6 Economic Growth (GDP)

Economic situations of a country also influence FPI positively and negatively. Growth in savings and investments, transfer of technology to developing countries, enhanced macroeconomic policies and financial market development attract more FPI to host country (Waqas et al., 2015). Such an environment is particularly encouraging to foreign investors in local stocks, but it hinders investments in fixed income instruments (Santis & Luhrmann, 2009).

Higher economic growth rates will capture more FPI and decrease fluctuations in FPI because an improved GDP growth rate will facilitate an increase in stock returns thereby leading to a reduction in fluctuations of portfolio investments (Waqas et al., 2015). It is rational to argue that external investors are more concerned about a nation's economic development than with economic growth. Therefore, this study investigates the relationship between GDP and FSO in GCC listed companies as a control variable.

3.2 Underlying Theory and Underpinning Theories

3.2.1 Agency Theory

Agency theory as underlying theory focuses on corporate governance mechanisms set up to reduce the conflict between management and shareholders. The agency theory postulates that the firms are a connection of the contracts between the owners and managers who are accountable in using a firm's resources (Jensen & Meckling, 1976). The theory states that managers (the agents) have more information concerning firms compared to owners (principals), and that this asymmetric information negatively impacts the principal's ability to successfully monitor whether their interests are effectively served by the agent. It can be challenging and costly for a principal to

oversee the actions of the agent, and, as such, the former cannot be sure whether the latter has performed his duties in a proper manner.

The main premise underlying the theory is the principal-agent relationship and the implementation of governance mechanisms as monitoring mechanisms that minimize the agency problems and costs by ensuring that the interests of the principal and agent are aligned.

Lubatkin, Schulze, Ling, and Dino (2005) explained why the agency problem leads to corporate governance concerns. They stated that at the agency theory's most basic level, it concerns problems arising from cooperative exchange when the principal contracts with the agent to make decisions on the former's behalf. Nevertheless, contracts tend to be incomplete and exposed to hazards 1) due to the nature of people, like self-interests, bounded rationality and risk aversion; 2) due to the nature of the firms like goal conflicts among organizational members; and due information asymmetry that make it challenging and costly for principals to keep abreast of actual accomplishments. The development of agency problems is attributed to the agents hiding information or taking of actions for their own self-serving interests. This motivates principals to invest in monitoring and in providing incentives to managers.

According to Jensen and Meckling (1976), the agency theory aims to avoid or to reduce agency costs ensuing from the diverging opinions of managers and owners. Agency costs are the aggregate bonding costs and the residual costs. Monitoring costs comprise the salaries and expenditures of owners for measuring, controlling and observing the performance of the agent. Despite the clarification of the agency theory and the agency

problems above, the concentrated ownership structure still results in a conflict of interests. This problem is prevalent among external investors and corporate managers. The improvement of internal and external monitoring mechanisms could be linked to solving the agency problems, but these mechanisms also result in increased agency costs.

On the basis of Jensen and Meckling's (1976) agency theory, controlling shareholders and corporate managers act with the purpose of satisfying their own self-interests to the disadvantage of external investors or minority shareholders. Hence, when the latter purchases company shares, they are faced the risk of failed investment returns owing to the expropriation of their interests by corporate management/controlling shareholders (Klapper & Love, 2004). Despite the performance of the companies and other factors that may promote the financing of companies by external investors, investors are more likely to turn to investments whereby they are protected from expropriation.

In the line with this argument, corporate governance refers to a set of mechanisms that are created for the protection of external investors against such expropriation activities by management (Ajinkya, Bhojraj, & Sengupta, 2005; Daily, Dalton, & Cannella, 2003; Karamanou & Vafeas, 2005; Mangena & Tauringana, 2007).

In the face of the agency problem, therefore, especially after the debacle of major corporate failures like Maxwell in the United Kingdom, Enron and WorldCom in the United States, and Parmalat in Italy, the significance of the presence of effective structures of corporate governance has been increasingly garnering attention. In regard

to developing countries, the Asian financial crisis from 1997 to 1998 revealed the requirement for effective governance mechanisms in Asian countries.

In other words, both developing and developed countries need corporate governance codes that stress effective governance mechanisms to monitor the activities of corporate managers (Mangena & Tauringana, 2007). Their primary aim of these codes is to protect shareholders against expropriation, and the literature shows that effective governance structures assist in aligning the interests' managers with those of shareholders. For instance, Dechow et al. (1996) and Beasley et al. (2000) documented that the existence of independent directors serving on the board of directors lessens the possibility of fraud, and Ajinkya et al. (2005) and Klein (2002) stated that the existence of the same minimizes earnings management.

As related to the above discussion, foreign investors are more likely to depend on effectiveness of corporate governance if corporate governance is successful in preventing corporate managers or major shareholders from expropriation; this prevention can be done through effective monitoring and promoting a transparent environment (Ajinkya et al., 2005; Cadbury Committee, 1992). This argued based on the view that external investors are often minority shareholders (Klapper & Love, 2004; Porta et al., 1999) and, as such, they face greater risks of being expropriated by major shareholders or management. This situation is made worse by distance (Brennan & Cao, 1997) and this one reason that, even when local minority shareholders are capable of monitoring costs and management, the risk to foreign investors could be significantly high.

Thus, the structures of corporate governance must be effective for them to minimize the risks posed to foreign investors and to raise the confidence and the inclination of foreigners towards investing in listed companies. Added to the above, this could assist in guaranteeing that minority shareholders are recipients of authentic information concerning a firm's performance and that the investment value is not expropriated by the controlling shareholders and managers (Bushman & Smith, 2001; Mangena & Tauringana, 2007). In conclusion, the agency theory offers a clear insight into the linkages between corporate governance determinants and foreign share ownership.

3.2.2 Signalling Theory

The signalling theory basically focuses on the reduction of information asymmetry between management and shareholders (Spence, 2002). Spence (1973) conducted a seminal work dedicated to the labour market demonstration of the ways in which a job applicant may employ behaviours to lessen information asymmetry that limits the choice of prospective employers. He further demonstrated the way in which high-quality prospective employees differentiate themselves from their low-quality counterparts through signals of robust higher education. This work led to increasing volumes of literature that applied the signalling theory to choose scenarios occurring in various disciplines (BliegeBird et al., 2005). Scholars of the management field have also employed the signalling theory to shed light on the effect of the information asymmetry in different contexts.

More recently, a study of corporate governance revealed the ways in which CEOs signal undiscernible firm quality to potential investors through the quality of the firm's financial statements (Zhang & Wiersema, 2009). Various authors have made use of the

signalling theory to provide insights into a firm's employment of heterogeneous boards to relay their compliance and to communicate social values to various organizational stakeholders (Miller & del Carmen Triana, 2009). In this regard, signalling theory is also often utilized in the literature of the entrepreneurial field, whereby scholars investigate the signalling value of the characteristics of the board (Certo, 2003). Aligned with the propositions of the signalling theory, firms operating internationally may leverage the issuance of financial statements in the English language so that all users can understand them (Dumontier & Raffournier, 1998). To this end, Grinblatt and Keloharju (2001a, 2001b) revealed that foreign investors are more inclined to trade in the stocks of firms when those firms use the same language and have the same cultural background as they do. Hence, firms signal to foreign investors through their English financial reporting.

3.3 Summary of the Chapter

This chapter summarizes the literature of previous studies in relationship to corporate governance (BOD characteristics, AC characteristics, and audit quality), performance (Tobin`s Q), family ownership, local institutional investors, the availability of English financial statements and control variables such as firm size, leverage, political risks exchange rate risks inflation risks and economic growth (GDP). This chapter also provides a summary about the previous foreign ownership study in developed and developing countries which, in turn shown what have been done in the previous studies regarding foreign ownership. This chapter also provides the underpinning theories related to this study and reviews the previous studies that are related to this study, especially, studies in relationship to the dependent variable (foreign share ownership). The next chapter offers the research framework and hypotheses development.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.0 Introduction

Following the review of relevant literature, the next step is to discuss the research methodology. A comprehensive theoretical frameworks are developed in order for answering the research questions stated in Chapter 1 **(Section 1.4)**. Based on literature review (Chapter 3), hypotheses of the current study has been developed to identify the relationship between corporate governance, family ownership, local institutional investors, firm performance (Tobin`s Q), the availability of English financial statements and foreign share ownership. In addition, chapter four explains how the present study is carried out. Specifically, this chapter describes the research design and data collection, also techniques of data analysis used in this study and the outlines the variables measurements.

This present chapter is organized as follows: **Section 4.1** presents and discusses the research framework of the study. **Section 4.2** discusses the development of the hypotheses. **Section 4.3** outlines the research method and design. **Section 4.4** the techniques of data analysis. **Section 4.5** outlines regression models. **Section 4.6** presents the measurement of variables. The summary of this chapter is presented in the final section.

4.1 Theoretical Framework

The theoretical framework of the study has been developed and portrayed based on two theories including agency theory and signalling theory. The purpose of the agency

theory is to explicate how foreign investors as minority shareholders can be protected from the exploitation of managers. Agency theory postulates that monitoring mechanisms have to be aligned with the interests of managers as well as investors to minimize the conflict of interests and any potential opportunistic behaviour that may arise. In addition, information asymmetry between internal and external investors must be reduced by enhancing the quality of financial reporting (Jensen & Meckling, 1976). The agency theory focuses on the protecting foreign investors as minority shareholders, BOD, AC, audit quality, enhancing firm performance. In addition, local institutional investors are considered as an external device capable of monitoring management and reducing the opportunistic behaviour of managers or majority shareholders against minority shareholders and foreign investors. Agency theory expounds on the linkage among the shareholders and management and contributes to the separation of functions and works to strengthen the trust between shareholders and managers. This, in turn, assists a company in enhancing performance and increasing the value of a firm (Jensen & Meckling, 1976). Among the primary mechanisms providing an oversight function that are important in tackling agency issues is the BOD (Lefort & Urzua, 2008). The BOD plays a key role in safeguarding the foreign investors' interests from various self-management interests. The most suitable solution to some agency problems in current organisations is found in the functions of the BOD (Hermalin & Weisbach, 1991).

Interest has grown on corporate governance among foreign investors particularly following the Asian financial crisis of 1997 to 1999 that was largely attributed to poor corporate governance practices (Johnson et al., 2000; Mangena & Tauringana, 2007). Prior studies have also suggested that some major reasons behind why investors avoided investing in emerging stock markets were weak corporate governance and the

lack of transparency and disclosure (Banz & Clough, 2002; Gibson, 2003). In relationship to agency theory, Jensen and Meckling (1976) expounded that corporate managers or major shareholders often act to achieve their self-interests to the detriment of the interests of minority shareholders.

Corporate governance comprises mechanisms that are developed to protect foreign investors against corporate manager's expropriation (Ajinkya et al., 2005; Daily et al., 2003; Karamanou & Vafeas, 2005). Considering this agency problem and the financial scandals and corporate failures of major businesses in the developing countries in the Asian financial crisis of 1997-1998, the need to apply effective systems of corporate governance and structures have never been demanded for current times. The primary goal of the BOD and AC are to diminish agency costs, increase risk disclosure in the financial reporting that helps shareholders, and works to improve the interests of foreign investors (Fama & Jensen, 1983). According to Abdullah (2004) and Andres, Azofra and Lopez (2005), the role of the BOD can be improved by the characteristics of the board, its size and the structure, which may assist in increasing performance and developing strategic plans and in implementing them in the required manner.

The Cadbury Committee (1992) and Higgs's (2003) review of the role of corporate boards for the Chancellor of the Exchequer and the Secretary of State for Trade and Industry in the United Kingdom indicated that effective corporate governance is crucial for monitoring the activities of corporate management and to protect foreign investors against expropriation. A significant number of studies in the literature have revealed that effective corporate governance structures assist in aligning the interest of management and shareholders. For instance, some studies indicate that the existence of

non-executive directors minimizes the possibility of fraudulent activities (Beasley et al., 2000).

Moreover, foreign investors are expected to depend more upon corporate governance effectiveness because foreign investors need to be protected from expropriation of the majority shareholder group (Klapper & Love, 2004; Porta et al., 1999; Mangena & Tauringana, 2007). According to Brennan and Cao (1997), effective corporate governance structures minimize the risks facing foreign investors and maximize their trust and inclination towards investing in listed firms. Added to this, such structures should assist in guaranteeing that minority shareholders are the recipients of valid information concerning a firm's performance (Bushman et al., 2004; Bushman & Smith, 2001). Conclusively, agency theory offers a clear insight on the relationship between corporate governance determinants and FSO. This combination covers BOD characteristics, AC characteristics, and the executive committee, board diversity including the number of foreign members serving on the board or its committees.

Aligned with the signalling theory, internationally operating firms may take advantage of issuing their financial statements in English as this can be easily comprehended by most users, even foreign investors (Connelly, Certo, Ireland & Reutzel, 2011). The signalling theory is basically focused on the asymmetry of information between management and shareholders (Spence, 2002) and can serve many functions. For instance, Spence (1973) examined labour markets and found that a job applicant may employ behaviours to minimize information asymmetry, and this may eliminate their selection by some prospective employers. Zhang and Wiersema (2009) revealed that the attributes of the CEOs with regard to their knowledge of financial statement quality

send certain signals to the investment community about a CEOs' qualifications and the quality of the financial statement. In fact, various authors have made use of the signalling theory to shed light on the way in which firms utilize heterogeneous boards to relay their adherence to social values to different stakeholders of a firm (Miller & del Carmen Triana, 2009).

The signalling theory is often utilized in entrepreneurship studies, where scholars have focused on the relationship of board characteristics and signalling value (Certo, 2003). Moreover, Grinblatt and Keloharju (2001a) explained that investors are more inclined towards stock trading with companies that communicate in an understandable and similar language and cultural background. Hence, companies are able to signal foreign investors of their financial reporting if it provided in the English language. Thus, the signal theory covers the variable of providing an external financial report in the English language.

The framework of this study is built based on the recommendations of the previous studies. Mangena and Tauringana (2007) suggested that future study could examine how other characteristics of corporate governance affect foreign ownership. Therefore, this study examined the internal monitoring characteristics of the BOD and AC, which are, size, independence, meetings, and financial expertise. While Miletkov et al. (2014) suggested that further studies could examine how institutional characteristics affect the foreign ownership. Therefore, this current study also investigates the impact of family and local institutional ownership, and firm performance on FSO. Furthermore, Jeanjean et al. (2014) suggested examining the effects of the use of English language on foreign ownership on countries in which the English language is not used in their business.

Therefore, this present study examined the impact of the adoption of the English language in financial reporting on FSO. Waqas et al. (2015) supposes that foreign portfolio investors are interested in maximizing their wealth and in avoiding investing in countries with high risks. Therefore, this current study considers risk factors such as political risks, exchange rate risk, inflation risk, and economic growth (GDP), which used as control variables in relationship to FSO.

The present study investigates the impact of factors on foreign share ownership. The study's framework is consistent with its objectives, as presented in Figure 3.1. The figure shows all the variables of the entire study based on the agency theory and signalling theory, and the relationship of internal factors such as corporate governance (board characteristics and the effectiveness of the BOD, AC characteristics (including the effectiveness of the AC and audit quality), ownership structure, performance (Tobin's Q), and availability of English financial statements (independent variables) with foreign share ownership. In addition, this study includes external factors including the relationship of political risks and economic factors such as inflation, exchange rate and economic growth GDP (as control variables) with foreign share ownership.

The problem statement highlighted the gaps as did the literature review, and, as such, the present study attempts to determine the answers to questions concerning board characteristics, AC characteristics, audit quality, family ownership, local institutional investors, performance (Tobin's Q) and the availability of English financial statements, political risks, economic factors and their relationship with foreign share ownership. The theoretical framework of this study is presented in Figure 4.1 as follows:

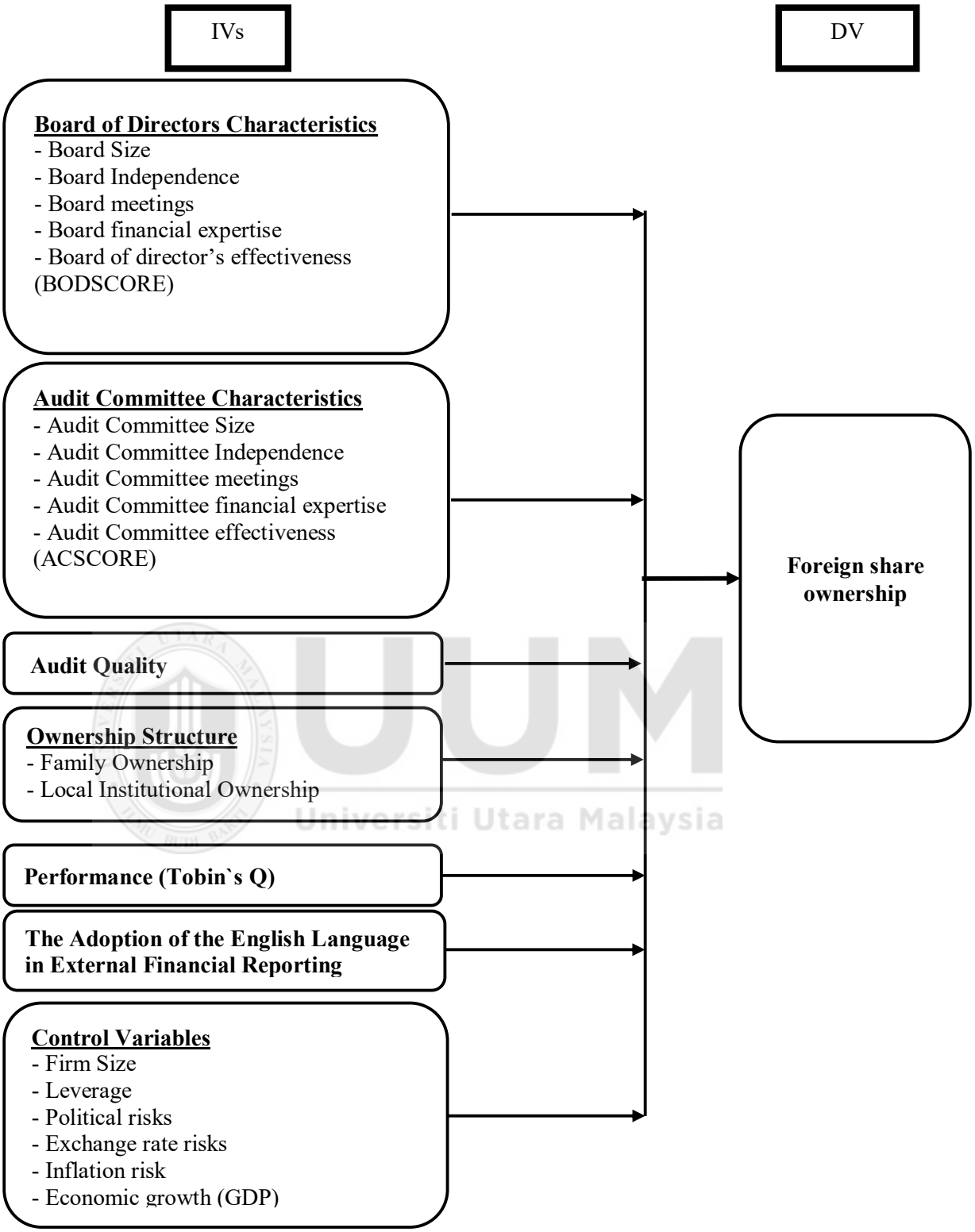

Figure 4.1.
Research framework.

4.2 Hypotheses Development

This section addresses the relationship between board characteristics (size, independence, meetings and financial expertise and effectiveness); AC characteristics (size, independence, meetings and financial expertise and effectiveness); audit quality; ownership structure (family ownership and local institutional investors); performance (Tobin's Q); and the availability of English financial statements and foreign share ownership.

4.2.1 Corporate Governance

4.2.1.1The Board of the Directors Characteristics and Foreign Share Ownership

According to Chobpichien et al. (2008) and Johl et al, (2013), BOD characteristics (e.g., size, independence, frequency meetings and financial expertise) are the main components that indicate the quality of the board, which, in turn, promote management's reporting of authentic information to external stakeholders.

4.2.1.1.1 Board Size

In the accordance with the agency theory, the BOD performs a key role in overseeing management and the separation of ownership and management within the company to ensure the protection of foreign investors from the opportunist behaviour of management (Jensen & Meckling, 1976; Pfeffer, 1972). Board size is considered as one of the major determinants of the board effectiveness, and prior studies have found that board size impacts the quality of corporate governance (Akhtaruddin et al., 2009; Khodadadi et al., 2010; Singh et al., 2008).

Previous studies such as Beasley (1996) and Yusof and Naimi (2010) have found a negative and significant relationship between board size and fraudulent financial statements. Moreover, Coles et al. (2008) Khodadadi et al. (2010) found a positive relationship between board size and firm performance. See Table 4.1.

Table 4.1 summaries the findings from previous empirical studies on the relationship between board size and financial reporting quality and firm performance.

Table 4.1
The Findings from Empirical Studies on the Relationship between Board Size and Financial Reporting Quality and Firm Performance

Previous studies	**Results**
Beasley (1996)	Negative relationship with fraudulent financial statements
Yusof and Naimi (2010)	Negative relationship with fraudulent financial statements
Coles et al. (2008)	Positive relationship with firm performance
Khodadadi et al. (2010)	Positive relationship with firm performance

In relationship to this, Fama and Jensen (1983) stated that a large board could include more independent members, which, in turn, could lead to controlling management and assist in increasing the wealth of shareholders by safeguarding the rights of shareholders over the opportunistic activities of management. Zahra and Pearce (1989) argued that large-sized boards are more inclined towards devoting more time and are more effective in monitoring corporate managers than are smaller boards. Also, Beasley (1996) revealed a large board tended to reduce the possibility of fraud.

Epps and Ismail (2009) stated that a larger board is a better monitoring mechanism of management because the directors' experience and expertise will significantly enhance board performance and increase the confidence of investors. In relationship to this, the agency theory posits that a larger board would be more competent and result in better performance owing to the integration of different expertise, skills and knowledge brought into the discussions in board meetings.

The rationale is that a large board can bring more experience and knowledge to the meetings of the board directors that could lead to strengthening effectiveness of the board that could lead to the enhanced quality of financial reporting which, in turn, could increase the confidence of foreign investors (Akhtaruddin et al., 2009).

Hence, on the basis of the argument of prior studies, whereas, large boards may include more experience and knowledge that will interacted and share to each other during meetings, the following hypothesis is proposed to be empirically tested;

H1: There is a positive relationship between the board size and the foreign share ownership.

4.2.1.1.2 Board Independence

The agency theory postulates that board that has a higher proportion of independent directors may decrease agency difficulties through their oversight and control of the unscrupulous behaviour of management (Jensen & Meckling, 1976). By supervising the conduct and controlling the managers' actions, independent directors can prevent agency disagreements between owners and managers (Benkraiem, 2009), while a

higher level of supervision enables board members to cognisance of the unprincipled behaviour of managers and to be very diligent in their duties.

Independent directors refer to non-working directors in the company who do not take part in daily management of a firm, and they are also known as non-executive directors or outside directors (Suwaidan et al., 2013). Other studies such as Akhtaruddin et al. (2009), Chobpichien et al. (2008), Doidge et al. (2007), Fama and Jensen (1983), Garcia-Meca and Sánchez-Ballesta (2010), Lefort and Urzúa (2008) and Pfeffer and Salancik (2003) have reported that independent directors are crucial in determining the effectiveness of the board in monitoring and controlling management's opportunistic behaviour as they are motivated to protect their reputational capital. Thus, independent directors are distinct from non-independent directors who are closely related with the CEO and his interests and are more than likely to agree with the CEO to the detriment of the interests of the shareholders.

A large number of independent directors on the board impacts the effectiveness of the provision of information to external users. In this case, these are foreign investors, as they support internal controls and oversee management to minimize opportunistic behavior and information asymmetry (Akhtaruddin et al., 2009; Chobpichien et al., 2008; Haldar & Rao, 2012; Khodadadi et al., 2010; Singh et al., 2008). Furthermore, foreign investors view independent directors as effective entities in monitoring and controlling the opportunistic behaviour of management, and thus effectively protecting the interests of shareholders (Mangena & Tauringana, 2007). In other words, in light of the signal theory, higher board independence may provide a considerable signal to

foreign investors about higher protection and a higher quality of financial reporting, which, in turn, could lead to an increase their confidence.

This is allied with the findings of board independency with FSO with the exception of one study in Jordon by Suwaidan et al. (2013). They found no relationship between board independence and foreign share ownership. Conversely, Min and Bowman (2015) found that a positive relationship between independent directors and foreign ownership. Miletkov et al. (2014) found a positive effect of board independence on foreign ownership. Mangena and Tauringana (2007) found a positive association between the independence of the BOD and foreign share ownership. The following table show the empirical finding of previous studies between board independency and foreign share ownership. See Table 4.2.

Table 4.2 summarizes of the findings from previous empirical studies on the relationship between board independence and foreign share ownership.

Table 4.2
The Findings from Empirical Studies on the Relationship between Board Independence and Foreign Share Ownership

Previous studies	**Results**
Miletkov et al (2014)	Positive relationship with FSO
Haldar and Rao (2012)	Positive relationship with FSO
Mangena and Tauringana (2007)	Positive relationship with FSO
Min and Bowman (2015)	Positive relationship with FSO

On the basis of the above discussion, there are inconsistent findings of board independency with FSO. The present study re-examines the relationship between board independence and foreign ownership through the testing of the following hypothesis;

H2: There is a positive relationship between board independence and foreign share ownership.

4.2.1.1.3 Board Meetings

Board meeting is defined as the number of meetings of the BOD held in the year (Al-Matari et al., 2012). The agency theory posits that BOD diligence represents the commitment of the board in playing their role as an entity in the company (Jensen & Meckling, 1976). On a similar note, O'Neill (2004) reported that the frequency of the meetings of the board is crucial for the performance of their duties, which, in turn, represents their efforts to satisfy the concerns of foreign about board effectiveness. Also, if the members are desirous of working towards meeting the shareholders' benefits, they exhibit a higher tendency to perform their role and responsibilities (Lipton & Lorsch, 1992). As such, the conclusion can be made that the diligence of the board and its oversight responsibilities could lead to enhanced monitoring of annual reporting (Baydoun et al., 2012).

A BOD accomplishes supervision by the means of board meetings; thus, the frequency of board meetings is a good avenue for the supervisory effects of directors (Vafeas, 1999). Ebrahim (2007) suggested that the board meetings frequency may be utilized to gauge the activities of the board that improve their effectiveness. Frequent meetings of the board can lead to an increase in the performance of the companies as frequent meetings could reflect increasing monitoring and evaluation of management

performance to satisfy and meet the interests of investors (Hsu & Petchsakulwong, 2010). On the whole, the frequency of meetings of the board members is expected to enhance the monitoring function of the board specifically for issues that concern the financial reporting process, and this is expected to lead to annual report transparency that is invaluable for foreign investors.

In relationship to the above discussion, Chobpichien et al. (2008) stated that foreign investors are concerned with board operations, primarily when it comes to the activity of the board that is gauged through the rate of board meetings held in year. It is believed that more board meetings can lead to enhanced company performance, as frequent meetings translate to more opportunities to oversee and review the performance of management (Hsu & Petchsakulwong, 2010). Overall, the frequency of meetings held by the board members can contribute to enhancing a board's function of supervising the financial reporting process, and, in turn, could result in the transparency of the information contained in the annual reports that foreign investors use to help them to make better investment decisions.

Ebrahim (2007). Hsu and Petchsakulwong (2010) O'Neill (2004) and Vafeas (1999) studied the relationship between corporate governance and firm performance, and found a positive relationship between board meeting and firm performance. Table 4.3 summarizes of the findings from previous empirical on the relationship between board meetings and firm performance.

Table 4.3
The Findings from Empirical studies on the Relationship between Board Meetings and Firm Performance

Previous studies	Results
Ebrahim (2007)	Positive relationship with firm performance
O'Neill (2004)	Positive relationship with firm performance
Vafeas (1999)	Positive relationship with firm performance
Hsu and Petchsakulwong (2010)	Positive relationship with firm performance

On the basis of the above argument, the study hypothesizes;

H3: There is a positive relationship between the frequency of board meetings and foreign share ownership.

4.2.1.1.4 Board Financial Expertise

In line with agency theory, members of the BOD with knowledge and expertise in accounting can deal with the complex financial planning structures and achieve their duties and provide financial reporting with high transparency and low information asymmetry to protect foreign investors. Furthermore, Agrawal and Chadha (2005) maintain that the members of the board of directors who have financial expertise play important roles in providing high quality of financial reporting for investors. Lanfranconi and Robertson (2002) explained that the financial scandals of Enron and WorldCom were because he members of the board of directors did not financial or accounting qualification.

Based on empirical studies (Agrawal & Chadha, 2005; Guner et al., 2008; Hashim & Devi, 2007; Volpe & Woodlock, 2008), financial expertise is a crucial determinant of the quality of financial statements. Agrawal and Chadha's (2005), Johl et al. (2013),

and Jeanjean and Stolowy (2009) reported that board members should have the financial expertise to review the quality of the financial information released by the company to investors In relationship to this, Minton et al. (2014) revealed that the financial expertise of directors may positively affect the behaviour of a firm concerning hedging policies for safeguarding investors' wealth by forecasting crises.

It important to investigate the effect of financial expertise on FSO as foreign investors are attracted to companies with high financial reporting quality, and studies have shown that the financial expertise is associated with high financial reporting quality (Agrawal & Chadha, 2005; Jeanjean &Stolowy, 2009; Lanfranconi & Robertson, 2002; Minton et al., 2014; Mustafa & Ben Youssef, 2010). Table 4.4 summarizes the findings from previous empirical studies on the relationship between board financial expertise and financial reporting quality.

Table 4.4
The Findings from Empirical Studies on the Relationship between Board Financial Expertise and Financial Reporting Quality

Previous studies	**Results**
Agrawal and Chadha (2005)	Positive relationship with financial reporting quality
Jeanjean and Stolowy (2009)	Positive relationship with financial reporting quality
Lanfranconi & Robertson (2002)	Positive relationship with financial reporting quality
Minton et al. (2014)	Positive relationship with financial reporting quality
Mustafa and Ben Youssef, (2010)	Positive relationship with financial reporting quality

In accordance with the above discussion, the hypothesis is proposed;

H4: There is a positive relationship between the board financial expertise and foreign share ownership.

4.2.1.1.5 Board of Director's Effectiveness (BODSCORE)

Prior studies that were devoted to exploring the linkage between corporate governance mechanism and firm performance employed the characteristics of the BOD to indicate overall best practices. This is because utilizing individual measurement for governance mechanism may possibly not signify governance effectiveness compared to employing a complex measurement of governance mechanisms. In relationship to this, Johl et al. (2013) revealed that the right combination of mechanisms may be considered as optimal in mitigating agency costs and in safeguarding the interests of the shareholders as corporate governance effectiveness can be realized in different ways.

Alzoubi (2012) and Johl et al. (2013) concluded that the BOD is a key component that influences the quality of the financial reporting. It has been argued that efficient governance might improve the trust of foreign investors via the high quality of the financial reporting as sources of information for foreign investors.

Chobpichien et al. (2008), Goh (2009) and Johl et al. (2013) found a positive relationship between board effectiveness and financial reporting quality. It has been argued that the independence, size, meetings, and financial experience of the BOD are the key characteristics that show the efficiency of the board, which, in turn, leads the provision of more information to foreign investors by managers. Table 4.5 summarizes the findings from previous empirical studies on the relationship between board effectiveness and financial reporting quality.

Table 4.5
The Findings from Empirical Studies on the Relationship between Board Effectiveness and Financial Reporting Quality

Previous studies	Results
Alzoubi (2012)	Positive relationship with financial reporting quality
Johl et al. (2013)	Positive relationship with financial reporting quality
Chobpichien et al. (2008)	Positive relationship with financial reporting quality
Goh (2009)	Positive relationship with financial reporting quality

Owing to the importance of board effectiveness in safeguarding the interests of shareholders, Chobpichien et al. (2008) and Ward et al. (2009) examined a bundle of mechanisms in relationship to company performance. They recommended delving into the mechanisms in combination as opposed to individually as these mechanisms complement each other.

On the basis of this argument concerning the board score, the hypothesis is developed;

H5: There is a positive relationship between the board of directors' effectiveness (SCORE) and foreign share ownership.

4.2.1.2 Audit Committee Characteristics and Foreign Share Ownership

Al-Shaer et al. (2017), Barua et al. (2010), Cooper (1993), Eyenubo et al. (2017); García et al. (2012), Haron et al. (2005) and Kusnadi et al. (2016) revealed that AC and BOD should have a good relationship for the internal control mechanisms to work effectively and eventually to enhance the financial statements quality. Also, the AC is deemed to be among the primary corporate governance system elements that plays a key role in monitoring the process of the annual reporting of the firm. Added to this, the AC serves

as an intermediary among internal auditors, external auditors, management and BOD in their establishment of smooth information flow and transparent reporting.

In other words, the main role of the AC is to provide annual reports with high quality in time manner. The committee is a monitoring mechanism that mitigates the information asymmetry between the foreign and local investors (Kim & Soon, 2007) and it protects the public's interests (Kyereboah-Coleman, 2008; Rouf, 2012).

4.2.1.2.1 Audit Committee Size

Foreign investors prefer companies with higher-quality accounting disclosures (Aggarwal et al., 2005). Previous studies have stated that the AC size is an important element of AC characteristics that influences corporate disclosure in financial reporting (Barako et al., 2006; Barako, 2007; Hsu & Petchsakulwong, 2010). Eyenubo et al. (2017) found that AC size is positively connected to higher disclosure and financial reporting quality.

On the basis of the perspective of the agency theory, the conflict between management and shareholders often results in the decision of management to serve their self-interests to the detriment of those of the shareholders, especially when management is inclined towards opportunistic behaviours (Jensen & Meckling, 1976). In the absence of independent and effective control procedures, top management is often inclined to go against protecting the interests of shareholders (Fama & Jensen, 1983). Therefore, ACs that are efficient and effective must be able to resolve conflicts, and work towards sustainable good performance (Klein, 2002).

Several authors around the globe have found a positive relationship between AC size and company performance in developing and developed countries (Al-Matari et al., 2012; Hsu & Petchsakulwong, 2010; Mollah & Talukdar, 2007). An appropriately sized audit committee will include more independent members who have expertise which, in turn, lead to improve the quality of financial reporting (Eyenubo et al., 2017). While an inadequately sized audit committee will result in a lack of independent members and result in ineffective control procedures that often allow top management to serve their interests and not those of shareholders (Fama & Jensen, 1983). See Table 4.3.

Table 4.6 summarizes the findings from previous empirical studies on the relationship between audit committee size and financial reporting quality and firm performance.

Table 4.6
The Findings from Empirical Studies on the Relationship between Audit Committee Size and Financial Reporting Quality and Firm Performance

Previous studies	**Results**
Al-Matari et al. (2012)	Positive relationship with firm performance
Eyenubo et al. (2017)	Positive relationship with financial reporting quality
Hsu and Petchsakulwong, (2010)	Positive relationship with financial reporting quality

Thus, the conclusion can be made that a large-sized AC will provide more monitoring in the process of financial reporting and lead to more disclosure and transparency, which, in turn, could attract foreign investors.

Relating to the above discussion, the following hypothesis to be tested;

H6: There is a positive relationship between audit committee size and foreign share ownership.

4.2.1.2.2 Audit Committee Independence

According to Al-Shaer et al. (2017) AC independence is the most generally used measure to determine the quality of AC and that AC independence indicates enhances the quality of financial reporting. The main function of the AC is to supervise the company's financial reporting procedure, as well as the honesty of financial reporting, create effective internal controls and supervise both internal and external auditors. It improves the BOD authority to serve as a supervisor of management by providing more comprehensive know-how and proficiency in financial statements of a firm (Kusnadi et al., 2016; Pincus et al., 1989).

From the view of agency theory, the independent members of AC have authority to detect errors and fraud in financial reporting, without any problems because they are independent reviewers and are not related to the company. Additionally, an independent AC is able judge the quality of financial reporting without management pressure (Eyenubo et al., 2017).

An independent AC is considered to be effective monitor of management as it lacks economic or personal associations with the latter (Mangena & Tauringana, 2007). Added to this, such a committee comprised decision-making experts who are good at decision management (Abbott et al., 2004; Beasley, 1996). Independence of the AC enables both external and internal auditors to conduct an objective audit and an assessment of financial reporting, and, in so, doing to reinforce the internal control function. In other words, an independent AC can lead to the lessening of the incidences of financial fraud (Abbott et al., 2004; Owens-Jackson et al., 2009).

Moreover, Pincus et al. (1989) and Rainsbury et al. (2008) stated that the primary objective of the AC is to help an independent BOD to carry out their duties of monitoring management and safeguarding the interests of investors, and this depends on the independence of the AC members from management, and their experience and expertise (Aboagye-Otchere et al., 2012; Dellaportas et al., 2012; Hidalgo et al., 2011; Li et al., 2012; Subramaniam et al., 2011). More specifically, Aboagye-Otchere et al. (2012) explained that, based on agency theory, independent committee members are significant in reinforcing the monitoring role of the committee, and this, in turn, assists investors in monitoring management activities and, in effect, minimizing the latter's benefits from withholding information. This is attributed to the committee's independence and lack of relationship with management and their ability to improve the reporting quality and credibility, and lessening information asymmetry (Mangena & Pike, 2005; Owens-Jackson et al., 2009). Thus, independent directors are effective in their controlling and monitoring functions of the opportunistic activities by the managers to protect the interests of the investors (Mangena & Tauringana, 2007).

Foreign investors perceive an independent AC as not being subjected to the influences of management and are possibly going to ensure that shareholders are given quality and credible financial information (Mangena & Tauringana, 2007). The independent characteristic of an AC has theoretical and empirical support with the quality of financial reporting, which, in turn, leads to the enhancement of the confidence of foreign investors. Eyenubo et al. (2017) and Mangena and Pike (2005) found a positive association between the independence of the AC and the level of the financial reporting quality and voluntary disclosure respectively.

With respect to FSO, Mangena and Tauringana (2007) and Suwaidan et al., (2013) revealed that FSO and the proportion of independent members on the AC, the independence of the committee and foreign share ownership are positively related. These conclusions are attributable to companies with robust or standard corporate governance structures like an AC, which is an important corporate governance mechanism. According to them, such results indicate that foreign investors would like to invest in firms with strong corporate governance structures in which their interests are more likely to be safeguarded. See Table 4.7

Table 4.7 summarizes the findings from previous empirical studies on the relationship between audit committee independence and foreign share ownership.

Table 4.7
The Findings from Empirical Studies on the Relationship between Audit Committee Independence and Foreign Share Ownership

Previous studies	**Results**
Mangena and Tauringana (2007)	Positive significant with FSO
Suwaidan et al. (2013)	Positive significant with FSO

Based on this discussion; the researcher proposes the following hypothesis;

H7: There is a positive relationship between audit committee independence and foreign share ownership.

4.2.1.2.3 Audit Committee Meetings

As noted by Owens-Jackson et al. (2009), a hardworking AC that meets more frequently will prove better commitment and attention as well as supervise more effectively. In other words, the regularity of meetings of an AC specify where an AC is active. In the

light of agency theory, the first significant attribute pertaining to AC characteristics is AC meetings. Based on prior literature, studies have used frequency of AC meetings to measure the activeness of AC (Hsu & Petchsakulwong, 2010). According to Anderson et al. (2003), the AC plays a role in monitoring internal controls and in providing authentic information to investors as well as to shareholders. Hence, it can be logically stated that AC discussions during its meetings include how to provide more reliable information in the financial statements of a company and detect financial fraud (Abbott et al., 2004; Abbott et al., 2000; Kusnadi et al., 2016; Owens-Jackson et al., 2009).

Abbott et al. (2004) Anderson et al. (2003) found a positive relationship between audit committee meeting and quality of financial reports. It has been argued that an AC having frequent meetings may mitigate the potential for management to conduct financial fraud which, in turn, leads to an increase in the confidence of foreign investors. On the other hand, an AC that has less frequent meetings is not as likely to monitor management in an effective manner (Menon & Williams, 1994).

Similarly, Beasley et al. (2000) found a positive relationship between audit committee meeting and quality of financial reports. It has been argued that fraudulent firms that are characterized as possessing earning misstatements have fewer AC meetings compared to their non-fraudulent counterparts. Table 4.8 summarizes the findings from previous empirical studies on the relationship between audit committee meeting and fraud of financial reports.

Table 4.8
The Findings from Empirical Studies on the Relationship between Audit Committee Meetings and Financial Reporting Quality

Previous studies	Results
Abbott et al. (2004)	Positive relationship with financial reporting quality
Beasley et al. (2000)	Positive relationship with financial reporting quality
Anderson et al. (2003)	Positive relationship with financial reporting quality

As noted from Table 4.8 the above arguments, the argument can be made that the frequency of meetings of an AC is an important factor to protect foreign investors by monitoring process of financial reporting, which, in turn, could lead to the detection of errors and fraud in financial reporting and correcting these errors.

Based on the above discussions, the researcher proposes the following hypothesis;

H8: There is a positive relationship between the frequency of audit committee meetings and foreign share ownership.

4.2.1.2.4 Audit Committee Financial Expertise

Financial expertise is additional vital feature of an AC. The importance of the AC's financial expertise has been stressed in the Sarbanes-Oxley Act of 2002 (SOX) with the objective of enhancing the quality of financial reporting (Badolato et al., 2014). Thus, the AC`s expertise has been extensively touched upon by a significant number of researches in the accounting field. It is evident that requirements for AC directors have been confirmed to be vital in dealing with the complications of financial reporting and for amending errors of financial reporting quality (Eyenubo et al., 2017).

Most accounting literature has recommended that members of the AC must have definite qualifications and experience to perform their jobs. For instance, Huang and Thiruvadi (2010) and Li et al. (2012) stated that an AC with financial experts has a greater tendency to understand the implications of the capital market and to provide more voluntary quality of financial reporting to investors. This has been corroborated by Bushman and Smith (2003) who also stated that AC members should have knowledge about the business environment and at least with one AC member should be an accountant or have experience in financial management as this defines the ability of the committee to read and understand basic financial statements.

Agrawal and Chadha's (2005) found a positive relationship between audit committee expertise and quality of financial reports. It has been argued that foreign investors are looking to invest in companies that have a directors with financial expertise to monitor the process of financial report which, in turn, providing high quality of financial reporting for investors. According to prior empirical studies, financial expertise enhances the effectiveness of the AC. For instance, Abbott et al. (2000) revealed a negative relationship between the financial expertise of AC and fraudulent financial statements. Also, Carcello et al. (2006) and DeZoort and Salterio (2001) reported a negative relationship between financial expertise and auditor dismissal, where there are disagreements between the management and the auditor. A negative relationship was also reported between AC financial expertise and adverse financial reporting review panel rulings (Song & Windram, 2004). Meanwhile, Mangena and Pike (2005) highlighted a positive association between voluntary disclosure and the financial expertise and independence of the AC. Table 4.9 summarizes the findings from

previous empirical studies on the relationship between audit committee meeting and financial reporting quality.

Table 4.9
The Findings from Empirical Studies Relationship between Financial Expertise of the Audit Committee and Financial Reporting Quality

Previous studies	Results
Agrawal and Chadha (2005)	Positive relationship with financial reporting quality
Abbott et al. (2000)	Negative relationship with fraudulent financial statements
Mangena and Pike (2005)	Positive relationship with financial reporting quality and voluntary disclosure

Accordingly, it is important to examine the effect of financial expertise on FSO as foreign investors tend to be more attracted to companies with high financial reporting quality, and studies have shown that the financial expertise is linked with high financial reporting quality (Agrawal & Chadha, 2005; Jeanjean & Stolowy, 2009; Lanfranconi & Robertson, 2002; Minton et al., 2014; Mustafa & Ben Youssef, 2010). Therefore, in consideration of the above discussion, the following hypothesis is proposed;

H9: There is a positive relationship between audit committee financial expertise and foreign share ownership.

4.2.1.2.5 Audit Committee Effectiveness (ACSCORE)

Corporate governance mechanisms function together in synergistic way to realize overall effectiveness, and they depend on certain combinations. In regard to this, an optimal combination of the mechanisms leads to the mitigation of agency costs because

the effective running of a mechanism is dependent on that of other mechanisms (Eyenubo et al., 2017; Kusnadi et al., 2016; Saleh et al., 2007; Zaman et al., 2011).

The role of the AC is becoming more ever becoming imperative in the governance mechanisms of various companies (Eyenubo et al., 2017; Kusnadi et al., 2016). Haron et al. (2005) defined the AC as a valid committee established by the BOD with the aim of contributing to quality governance mechanisms and ensuring dependable disclosures of quality financial reporting. Part of their essential responsibilities is the management of the overall financial reporting procedure and ensuring an unbiased external audit by setting up a communication linkage between the external auditors and the BOD (Vicknair et al., 1993). The BOD sometimes tends to assign the duty of supervising the activity involved in financial reporting to the AC, although, this does not mean that the board escapes from their lawful financial reporting responsibility (Eyenubo et al., 2017).

In fact, the effectiveness of the AC framework is expected to be enhanced significantly in cases in which its characteristics operate in combination. In relationship to this, Agrawal and Chadha (2005) related that independent directors equipped with financial experience are more valuable in monitoring annual reporting. Along a similar line of reasoning, Mustafa and Ben Youssef (2010) reported that AC independence cannot be achieved if the AC members are not equipped with financial knowledge. Added to this, Xie et al. (2003) said that an AC with members who have financial backgrounds and who meet frequently are serve as a better internal control mechanism, and, in turn, this could lead to effective financial reporting oversight.

In a related study, Saleh et al. (2007) addressed meeting attendance and stated that independent committee members having financial expertise but who refrain from attending meetings will not contribute to the effectiveness of the committee in increasing the quality of financial reporting.

Eyenubo et al. (2017), Haron et al. (2005), Kusnadi et al. (2016) and Xie et al. (2003) found a positive relationship between audit committee Effectiveness and quality of financial reports. It has been argued that an effective AC must have an in-depth knowledge of accounting and the assessment of financial statements, and conventional knowledge in accounting and auditing to guarantee auditor independence, decent management and internal controls. Therefore, AC performs an important role in revising a company's operations to ensure that it attains high-quality financial reporting. Table 4.10 summaries the findings from previous empirical studies on the relationship between audit committee effectiveness and financial reporting quality.

Table 4.10
The Findings from Empirical Studies on the Relationship between Audit Committee Effectiveness and Financial Reporting Quality

Previous studies	**Results**
Eyenubo et al. (2017)	Positive relationship with financial reporting quality
Kusnadi et al. (2016)	Positive relationship with financial reporting quality
Haron et al. (2005)	Positive relationship with financial reporting quality
Xie et al. (2003)	Positive relationship with financial reporting quality

In the present study, AC effectiveness is considered to have four dimensions, which are AC size, AC meetings (frequency of meetings), AC financial expertise and independence. The above mentioned dimensions are appropriate constructs used to explore the effect of the AC's impact on foreign share ownership. Depend on the discussions above, the following hypothesis is proposed;

H10: There is a positive relationship between audit committee effectiveness (score) and foreign share ownership.

4.2.1.3 Audit Quality and Foreign Share Ownership

The most frequently measurement employed for audit quality is the size of audit firms (Kilgore, 2007). Additionally, Big 4 firms have been proclaimed to be superior to non-Big 4 audit firms at discovering mistakes because Big 4 audit firms command more resources and so can employ workers will greater experience and knowledge (Okike, 1999). The quality of an audit has been seen to have a positive and significant position with respect to investors in the capital allocation of resources because prospective investors rely on the usage of audited financial reporting standards as the main yardstick for investment decision making (Eyenubo et al., 2017). The main goal of audit quality is to offer a guarantee to prospective investors that financial statements are meticulously audited and contain accurate audit opinions and have audit engagement (Al-Ajmi, 2009). DeAngelo (1981) posited that an auditor will discover and disclose any irregularities in an accounting system and report them in an appropriate audit opinion. A nation's inability to obtain investments characterized by quality and sustainability has been attributed to ineffective audit reports by firms and an external audit works towards reducing information asymmetry between executive managers and foreign investors by providing credibility to the financial reports (Eyenubo et al., 2017).

In the light of agency theory, auditing effectiveness differs with the quality of the auditor, in that, with an increase of agency costs, an increased demand for high quality audits arises (Jensen & Meckling, 1976). Audit quality refers to the combined probability of the detection and reporting of errors in a financial statement (Choi et al., 2008; DeAngelo, 1981).

Considerable evidence has been given on the positive role of auditing and audit quality in steering clear of biased financial reporting (Becker et al., 1998). Fan and Wong (2005) revealed that the Big 4 audit firms are playing a role of a governance mechanism in emerging economies, which are characterized by concentrated ownership. In this view, high quality auditors may urge client firms to report a detailed account of their financial position and firm-specific information in a timelier manner to the investors. This could lead to effectively safeguarding the interests of minority shareholders.

The relationship between audit quality and FSO has been extensively studied in the literature. Miletkov et al., (2014) and Suwaidan et al., (2013) found a significant relationship between Audit Quality (BIG4) and FSO. Boone et al., (2010) maintained that investors recognize that Big 4 auditors (and by implication the accounting information quality of Big 4 clients) are higher in quality. This, therefore, implies that institutional investors and investment bankers prefer Big 4 auditors. Additionally, Mansi et al., (2004) and Ghosh and Moon (2005) examined investors' perceptions of the auditor quality and tenure and reported that investors consider auditor tenure to improve the quality of an audit. See Table 4.11.

Table 4.11 summaries the findings from previous empirical studies on the relationship between Audit Quality (BIG4) and foreign share ownership.

Table 4.11
The Findings from Empirical Studies on the Relationship between Audit Quality (BIG4) and Foreign Share Ownership

Previous studies	Results
Miletkov et al. (2014)	Positive relationship with FSO
Suwaidan et al. (2013)	Positive relationship with FSO
Boone et al. (2010)	Positive relationship with FSO
Mansi et al. (2004)	Positive relationship with FSO
Ghosh and Moon (2005)	Positive relationship with FSO

In accordance with the above discussion of findings, audit quality authority and resources can be considered to safeguard investors by minimizing the information asymmetry between management and foreign investors, offering increased transparency in financial reports to investors and making sure that financial reporting is credible. Therefore, the following hypothesis is proposed to be tested;

H11: There is a positive relationship between audit quality and foreign share ownership.

4.2.2 Ownership Structure

4.2.2.1 Family Ownership and Foreign Share Ownership

Founding family ownership is considered to be a crucial category of ownership structure because families own many business worldwide (Anderson & Reeb, 2003; Claessens et al., 2000; Jiang & Habib, 2009; Lim et al., 2014; Porta et al., 1999; Villalonga & Amit, 2006). This ownership category may be a source of comparative

edge through the possibility of reducing agency costs and increasing value of company (Demsetz & Lehn, 1985; Shleifer & Vishny, 1997). This indicates that family may be effective monitors of firm performance. Added to this, founding families have a higher tendency to have a continued long-term presence in companies and to have long-term obligations that urge family owners to invest in long-term projects as opposed to short-term ones. They also provide a level of stability that enables them to leverage lower costs of financing debt and sustain meaningful associations with their suppliers and relevant external bodies (Anderson & Reeb, 2003). Another perspective on the relationship (Fama & Jensen, 1983; Shleifer & Vishny, 1997) is that it may eventually lead to sub-optimal investor decisions, high rewards and considerable control in the selection of management and directors that could prevent the efforts of third parties to participate in the management of the firm (Anderson & Reeb, 2003).

Based on the above discussed reasons, family ownership may prevent investments from foreign investors. Evidence to support this came from Doidge et al. (2007) and Leuz et al. (2010) who found that U.S. investors possess fewer shares in foreign companies in which considerable share blocks are in the hands of managers and families that increase the susceptibility to expropriation of foreign investors.

Similarly, Kho et al. (2009) supported this by examining a large sample of equity markets from 46 developing countries following a liberalization period. The finding of the study revealed that U.S. investors are biased towards countries in which ownership by managers is low and those companies in which ownership by managers has been shown to have decreased. In the context of Korea, firm-level data shows that foreign investors are investing highly in companies having lower family ownership.

Meanwhile, Lang et al. (2004) examined 27 countries in this regard and revealed that U.S. investment analysts tended to not follow concentrated family ownership firms as evidenced by their lower valuation.

Concerns are evident when family members occupy executive positions as reported by (Gibson, 2003). The findings of the study reveal that the difference between family and company interests is one of the top factors that sways investors from making investments in emerging countries as family ownership and control tendency often lead to ineffective corporate governance (Coombes & Watson, 2001; Mobius, 2001). This view may be reinforced by the empirical proof and theoretical contentions provided by Fama and Jensen (1983), which asserted that agency conflicts are compounded with the combination of ownership and control.

Miletkov et al. (2014) Lang et al. (2004) and Leuz et al. (2010) found a positive relationship between family ownership and foreign share ownership. It can be argue clearly from the above discussion, that foreign investors tend to steer clear of family-owned firms when considering their investment opportunities in foreign firms indicating that companies with high a concentration of family ownership are not more attractive to foreign investors compared to their counterparts that are not family owned. Table 4.12 summaries the findings from previous empirical studies on the relationship between Family Ownership and foreign share ownership as shown in Table 4.6. See Table 4.12.

Table 4.12
The Findings from Empirical Studies on the Relationship between Family Ownership and Foreign Share Ownership

Previous studies	Results
Miletkov et al. (2014)	Negative relationship with FSO
Lang et al. (2004)	Negative relationship with FSO
Leuz et al. (2010)	Negative relationship with FSO

In the case of GCC countries, similar to developing countries, the majority of firms are family owned and controlled by founding families and families control the board. Family members control the daily running of businesses, they hold strong authority and influence in the businesses of the firm, and they hire/fire managers at their discretion. This encourages management to focus on the controlling owners' interests as opposed to increasing shareholders' value, in which case the family is intent on sustaining their control through their ownership and plays an expropriating role in management to guarantee that the company operates in alignment with their interests (Santos, 2015).

Depend on the above discussion, the family-owned firm are not as likely to attract foreign investments when the family members take part in the board decision making and, as such, the following hypothesis is proposed to be tested;

H12: There is a negative relationship between family ownership and foreign share ownership.

4.2.2.2 Local Institutional Ownership and Foreign Share Ownership

As mentioned in Chapter Two, institutional ownership enhances the effectiveness of corporate governance (Chung & Wang, 2014; Gillan & Starks, 2000; Cremers & Nair, 2005; Donnelly & Mulcahy, 2008; Ruiz Mallorquí & Santana-Martín, 2009), which

reduces the agency problem and any opportunistic financial reporting (Gillan & Starks, 2000; Bos & Donker, 2004) through two factors. First, by owning a significant part of the company they have the motivation to supervise the activities of management and make sure that managers do not engage in non-value maximizing behaviour.

Second, because they have greater expertise, they will be able to interpret information disclosed in the annual reports (Barako, 2007; Bhattacharya & Graham, 2009; Ferreira & Matos, 2008; Ruiz Mallorquí & Santana-Martín, 2009). Hashim and Devi (2007) and Chahine and Tohmé (2009) contend that institutional investors serve as an instrument to safeguard the interests of small shareholders in firms controlled by majority shareholders instead of internal governance mechanisms, such as board size and the proportion of outside directors. From these arguments, it can be said that institutional investors serve as an important device monitor on management and provide accurate financial statements, which in turn, protect the foreign investors by increasing the level of disclosure of financial reporting.

Literature has evidenced the role of local institutional investors in overseeing management (Lins, 2003; Mitton, 2002; Shleifer & Vishny, 1997). The assumption is that large investors like institutional investors are more incentivized to take part in monitoring management compared to their smaller counterparts as they carry the burden of increase fixed costs of gathering information on the behaviour and activities of management. Dong and Ozkan (2008) and Gillan and Starks (2000) attributed the greater expertise and more authority of local institutional investors for rational actions and for the capability of influencing the decisions of management by their ownership (direct) or through their trading of shares (indirect). Therefore, they have opportunity

to control company performance by monitoring or reviewing the decisions of the board and by carrying out activities that protect the interests of shareholders through their concentration on projects that add value for them.

Nevertheless, this notion may not be popular in emerging countries owing to their underdeveloped institutions and capital markets, political limitations, and deficient monitoring systems (Chakrabarti et al., 2008). Another possibility is that local institutional investors like insurance firms, banks, and pension funds may be compelled to work with managers as opposed to going against their decisions in an effort to safeguard their business association with the firm (Cornett et al., 2007; Pound, 1988). Hence, institutional investors may be more loyal to management than they are to shareholders, notwithstanding their holdings, and, thus, this prevents them from stalling management's actions and activities that are detrimental to the shareholders' interests (Ferreira & Matos, 2008).

The proportion of shares possessed by local institutional investors might influence the investment decisions of external investors. Karamanou and Vafeas (2005) established that the foreign investors observe that institutional investors have experience and are more active than individual investors in supervising managers via the information advantage that they possess. Additionally, institutional investors can be understood as more effective market makers and more effective market traders than individual investors (Al-Najjar, 2010). Hence, it is thinkable that foreign investors are more likely to attracted to firms in which greater proportion of their shares are possessed by local institutional investors.

Mangena and Tauringana (2007), Miletkov et al. (2014) and Suwaidan et al. (2013) found a positive relationship between institutional investors and foreign ownership. It has been argued that institutional investors are able to detect the opportunist behaviour of management because they possess financial knowledge and are capable of interpreting the information disclosed in the annual reports (Chung & Wang, 2014; Bos & Donker, 2004). Thus, it is suggested that institutional investors constitute one of the most important components to decrease agency problems and to defend the interests of foreign investors because they are better able to monitor the management compared with individual investors (Al Mazan et al., 2005). Table 4.13 summaries the findings from previous empirical studies on the relationship between Local Institutional Investors and foreign share ownership. See Table 4.13.

Table 4.13
The Findings from Empirical Studies on the Relationship between Local Institutional Investors and Foreign Share Ownership

Previous studies	**Results**
Miletkov et al. (2014)	Positive relationship with FSO
Suwaidan et al. (2013)	Positive relationship with FSO
Mangena and Tauringana (2007)	Positive relationship with FSO

Foreign investors may be attracted to companies that have local institutional investors, conceivably because of the frequent information advantage that they hold and the greater investments that result in their motivations to oversee managers. Based on the above discussion of findings, it can be assumed that local institutional investors impact foreign ownership, and, thus, it is proposed that;

H13: There is a positive relationship between local institutional ownership and foreign share ownership.

4.2.3 Performance (Tobin`s Q) and Foreign Share Ownership

Investors are primarily concerned with the performance of the firm as it directly affects the returns on investment. It has been argued that upon the publishing of financial reports, an efficient market should work towards absorbing the information and adjusting the stock prices these reports. Eun et al. (2012) revealed a financial performance announcement greatly benefits investors as it assists them in their decisions and in predicting a firm's financial performance and that this ensures quality accounting practices coupled with transparency. The agency theory posits that separation of the CEO and chairman positions into two positions can lead to improved firm performance and add to the wealth of shareholders (Jensen & Meckling, 1976). Based on agency theory the separation between the two company positions may increase the enhancement of foreign investors' wealth.

The performance of the firm has measured effectively through Tobin's Q (Amran & Ahmad, 2009; Meyer, 2003). Ang and Ding (2006) and Najid and Rahman (2011) reported that Tobin's Q is a stable measurement of the value of the firm and it is a forward-looking measurement that indicates the prospects of the investors concerning a firm's future performance that has its basis on past or present performance (Ganguli & Agrawal, 2009; Shah & Hussain, 2012; Shan & McIver, 2011).

The relationship between firm performance and FSO has been investigated in the literature. Dahlquist and Robertsson (2001), Haldar and Rao (2012) Miletkov et al, (2014), Mangena and Tauringana (2007) and Kim et al. (2010) found a positive and significant relationship between firm performance and foreign ownership. It can be argued that investors are motivated to maximize their wealth by investing in companies

that have good and stable performance and that display a tendency for an increasing market price. Moreover, Appuhami (2007) examined the impact of value creation efficiency upon the capital gains on shares by investors indicating that capital gain is among the major aims of investors. To this end, investors who desire capital gains dispose of their shares when the market price goes up from the initial purchase price of the shares. Table 4.14 summaries the findings from previous empirical studies on the relationship between firm performance and foreign share ownership. See Table 4.14

Table 4.14
The Findings from Empirical Studies on the Relationship between Firm Performance and Foreign Share Ownership

Previous studies	**Results**
Miletkov et al. (2014)	Positive relationship with FSO
Mangena and Tauringana (2007)	Positive relationship with FSO
Haldar and Rao (2012)	Positive relationship with FSO
Kim et al. (2010)	Positive relationship with FSO
Dahlquist and Robertsson (2001)	Positive relationship with FSO

In accordance with the above discussion of findings, it is proposed that;

H14: There is a positive relationship between performance (Tobin's Q) and foreign share ownership.

4.2.4 Adoption of the English Language in External Financial Reporting and Foreign Share Ownership

The difficulty attributed to information processing in an annual report can influence the degree to which foreign investors participate in stock exchanges. Based on previous studies, an equity investment could breed home bias in situations in which investors

have overvalued local equity compared to foreign equity in their portfolios (French & Poterba, 1991). In relationship to this, Beneish and Yohn (2008) stated that foreign investors are faced with the costs of information processing and this could prevent investments. Hence, the argument exists that the type of language adopted in an annual report has information-based limitation tendencies and can prevent cross-border investments. Accordingly, Hau (2001) reported that linguistic and cultural borders are frequently found in international borders, and they play a role as barriers of information. If these limitations lead to a challenge in understanding narrative mechanisms within an annual report, it goes without saying that the financial report can impact the decisions of foreign investors.

Based on past studies, barriers in communication can impact the decisions to investment among foreign investors. For instance, Jeanjean et al. (2014) and Grinblatt and Keloharju (2001a) discovered that investors possess a higher tendency to trade in equities of firms that relate to them in a common language and culture. They found that companies in Finland that disclose their annual reports in English languages are more successful in tapping into the large Swedish-fluent investor base in both countries. Also, Pagano et al. (2002) reported that a similar language encourages cross-listings of stock markets in other countries, indicating that such clustering may be related to flows of information. Added to this, Ferreira and Matos (2008) conducted an analysis of the country-level determinants of institutional ownership and found that U.S. institutional investors displayed an evident inclination towards English-speaking countries, and similarly, Kalev et al. (2008) conducted a study that compared the behaviours of both domestic and foreign investors in listed firms on the Helsinki Stock market. The result of the study revealed that information relating single-listed stocks appeal more to

domestic investors who are not facing any difficulties in terms of distance, language, or culture. This, therefore, signifies that language barrier influences a foreign investor's decision.

Furthermore, home bias is another factor that has been related to perception of lower competence with respect to the interpretation of financial statements and a lack of awareness of investors about foreign companies. Merton (1987) explained that the recognition hypothesis posits that investors make investments in companies about which they are familiar, while they may be unaware of foreign corporations can deliver financial reports in a language that is unfamiliar to them. According to studies, investors are not inclined to act when they have inadequate knowledge of doing a work (Heath & Tversky, 1991). Hence, the failure of investors to understand the narrative contents of financial reports can result in a perceived lack of competence, and, thus, this could prevent them from investing in foreign stocks. Aligned with this finding, Graham et al. (2009) reported a positive relationship between investors' perceived competence and international diversification. Moreover, information disadvantage for foreign investors is higher for firms that disclose their annual reports in other languages except English compared to companies that disclose their reports in English and their local language (Jeanjean et al., 2014). Table 4.15 summarizes the findings from previous empirical studies on the relationship between the Adoption of English language in External Financial reporting and foreign share ownership. See Table 4.15.

Table 4.15
The Findings from Empirical Studies on the Relationship between the Adoption of the English Language in External Financial Reporting and Foreign Share Ownership

Previous studies	Results
Jeanjean et al. (2014)	Positive relationship with FSO
Jeanjean and Stolowy (2009)	Positive relationship with FSO
Hau (2001)	Positive relationship with FSO
Grinblatt and Keloharju (2001a)	Positive significant with FSO
Ferreira and Matos (2008)	Positive relationship with FSO
Kalev et al. (2008)	Positive relationship with FSO

On the basis of the extensive English use, and the information barriers that foreign investors face, the present study hypothesizes that the adoption of English in financial reports is related to increased foreign ownership in the firm, leading to the following hypothesis;

H15: There is a positive relationship between providing an external financial statement in English language and foreign share ownership.

4.3 Research Method and Design

This study fulfils its objectives through an investigation of the association between BOD characteristics (size, independence, meeting, financial expertise and effectiveness), AC characteristics (AC size, AC independence and AC financial expertise and effectiveness), audit quality, performance (Tobin`s Q), family ownership, local Institutional investors, availability of English financial statements as an independent variables and FSO as the dependent variable.

4.3.1 Sample and Data Collection

4.3.1.1 Sample

The focus of this study is on non-financial firms that are publicly listed on the stock markets of the selected GCC countries from the period of 2012 to 2015. Importantly, this period was selected because it is the most recent period for which data can be accessed, and it covers a four-year period.

This study selected non-financial firms for three reasons. First, financial firms have rules and regulations and certain corporate governance structures different from those of non-financial firms (Mangena & Tauringana, 2007). Second, financial firms are also mandated to reveal certain further information by regulators, while non-financial firms are not. Third, previous studies Dahlquist and Robertsson (2001), Bokpin and Isshaq (2009), Bokpin et al. (2015), Jiang and Kim (2004), Min and Bowman (2015), Miletkov et al. (2014), and Suwaidan et al. (2013) have also studied non-financial firms only, and, thus, make it possible to compare the results with previous studies.

Therefore, the sample was based on the following criteria:

1. The sample of the current study is the listed non-financial companies that involved in FSO and also firms without FSO involvement as control companies.
2. The current study excludes the financial sector (e.g., banks, insurance companies).
3. This study excludes any company that did not provide annual report during the period under study.

4.3.1.2 Data Collection

This study employed secondary data extracted from the annual reports of non-financial listed firms that were publicly listed in the stock markets of GCC. The sample comprises only non-financial firms during the period of 2012-2015. The overall number of selected non-financial listed firms was 192, with a total of 768 firm-observations (568 firm with FSO and 200 firms without FSO) from GCC stock markets, namely, the Saudi Stock Exchange (Tadawul), the Qatar Stock Exchange (DSM), the Abu Dhabi Stock Exchange (ADX), the Dubai Financial market (DFM), the Muscat Stock Exchange (MSM) and the Bahrain Stock Exchange (BB). The current study excluded the financial listed companies such as banks, insurance companies and pension funds. This study also excluded non-financial listed companies that did not provide annual report during the study period of 2012-2015. See Table 4.16.

Table 4.16
Non-financial Listed Companies in Stocks Markets in Selected GCC Countries

Countries	**Saudi Arabia**	**Qatar**	**Emirates**	**Oman**	**Bahrain**	**Total**
All listed companies	171	43	121	116	45	490
Financial Companies (Banks and Insurance companies)	-(68)	-(18)	-(41)	-(35)	-(20)	-(186)
Total non-financial companies	103	25	70	81	25	304
Companies with no information provided during the study`s period	-(48)	-(2)	-(42)	-(10)	-(10)	-(112)
Non-financial companies with available information	15	21	18	71	25	212
Non-financial companies that have foreign share ownership	40	20	15	55	12	142
Non-financial companies without foreign share ownership (control companies)	15	3	13	16	3	50
Total sample of the study	55	23	28	71	15	192

The data relating to the FSO, characteristics of the BOD and AC (size, independence, meeting, financial expertise and their effectiveness), family ownership, local institutional ownership and adoption of the English language in external financial reporting were all gathered from the annual reports of non-financial listed companies. These annual reports of 194 non-financial listed companies were obtained from the official websites of the GCC stock markets, namely, the Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/), the Qatar Stock Exchange (DSM) (https://www.qe.com.qa/), the Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae), the Dubai Financial market (DFM) (https://www.dfm.ae/), the Muscat Stock Exchange (MSM) (https://www.msm.gov.om/) and the Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/). The data of firm performance (Tobin's q), firm size and leverage of non-financial listed companies in the stock markets of GCC countries were gathered from DataStream database. While the data concerning the economic variables such as inflation, exchange rate and economic growth (GDP) were gathered from official website of the World Bank database (http://www.worldbank.org/). The data of political risk variable was gathered from the official database website of Political Risk Services (PRS) (https://www.prsgroup.com/). See appendix A and B. The STATA software package was used to analyze the data.

4.4 Data Analysis Techniques

4.4.1 Pre-Tests of Regression Test

The diagnostic tests were employed in the distribution of data in light of normality, outliers, Multicollinearity and Correlation, Homoscedasticity and autocorrelation.

4.4.1.1 Normality

Normality is described as the shape of the distribution of data for individual quantitative data variable and its normal distribution. It is a basic assumption in multivariate analysis that follows the premise that a significant deviation from normality will result in an invalid statistical outcome (Hair, Black, Babin, Anderson, & Tatham, 2010; Tabachnick & Fidell, 2007). Accordingly, the normality of individual variables should be checked.

There are several ways to check the normality of the data. It can be checked using several tests, such as Shapiro-Francia, Shapiro-Wilk and Kolmogorov–Smirnov tests by obtaining the values of skewness and kurtosis or by using residual graphs, such as normal probability plots, quartiles of a normal distribution plot and histograms. Kline (2011) suggested that skewness values should not exceed three and kurtosis should be less than 10. The present study will check the normality of data by use graphical methods, skewness and kurtosis as the common statistical normality tests.

4.4.1.2 Outliers

The observations that have unique or different characteristics compared to the whole population are called outliers. Some scientists advocate that outliers should be retained for better representation of the whole population unless there is evidence of measurement errors (Hair et al., 2010). Others provide several ways to detect and to treat any possible outliers. Cook's distance, standardised residual and leverage are some common ways of detecting and eliminating influential outliers. Other ways, such as transformation, winsorising and trimming the data are also used to deal with any problematic outliers. However, researchers, such as Grissom (2000) argued that

transforming the data could change the main characteristics of the original data. Tabachnick and Fidell (2013) identified outliers in a list of observations with standardised residuals of higher than ± 3.3. Therefore, the present study employed standardised residuals to detected outliers.

4.4.1.3 Multicollinearity and Correlation

Multicollinearity is the issue of having high correlation between independent variables which could inflate the regression results. Cohen and Cohen (1983), Hair et al. (2010) and Tabachnick and Fidell (2007) stated that multicollinearity may pose a problem if the correlation value in the correlation matrix constituting all independent variables is higher than 0.80. Along with the correlation test, the variance inflation factor (VIF) was conducted because the examination of the matrix correlations between variables does not always detect multicollinearity (Hamilton, 2012). VIF indicates the impact that other independent variables have on the standard error of regression coefficients. Collinearity problems are said to exist if VIF is over 10. In the present study, correlation matrix and variance inflation factor (VIF) are used to check the multicollinearity.

4.4.1.4 Test of Heteroskedasticity

Heteroskedasticity refers to the constant variation of the residual as the errors process should be homogenous across units. Heteroskedasticity is a problem that arises when the variance of the errors is not independently and identically distributed over the examined observations. In panel data, even if the variance of errors is constant between cross-sectional observations, the variance may differ within observations through time, which raises the issue of group-wise heteroskedasticity (Baum, 2001). It is argued that ignoring the presence of heteroskedasticity can result in inefficient coefficient

estimations and biased standard errors (Baltagi, 2012). Therefore, the present study will check the presence of heteroskedasticity.

4.4.1.5 Autocorrelation

Autocorrelation is the issue of error components being correlated across time due to high similarities. The regression model assumes that the error term of units is not correlated and not influenced by other units. Although this is a violation of the ordinary assumption, it is a common issue in panel or time-series analysis (Wooldridge, 2010). Therefore, the current study employed the Wooldridge test to detect autocorrelation.

4.4.2 Panel Data Analysis

The current study utilizes panel data analysis to determine the influence of the independent variables on foreign share ownership. Panel data analysis is widely used in accounting and finance studies. Panel data, also known as time series data or longitudinal data, typically refers to data of a number of individuals observed over a period of time. Greene (2003) argued that some issues are better studied for a longer period of time and with more observations. The influence of changes in corporate governance is one of the issues that is recommended to be studied using panel data analysis (Donker & Zahir, 2008). Therefore, this research studied around 192 firms over a four-year period.

The simple ordinary least squares (OLS) regression treats each examined observation as homogeneous and does not take into consideration heterogeneity unlike the panel data regression in which each observation is considered as heterogeneous. Using simple OLS regression for panel data can lead to different results with misleading inference

(Jager, 2008). Therefore, it is vital for this study to apply panel data regression techniques for longitudinal data.

Baddeley and Barrowclough (2009) and Wooldridge (2010) explained the importance of taking into consideration the individual unique factors of panel data observations, which remain constant over time and cannot be assumed as independently distributed across time. Therefore, pooled OLS estimation may lead to incorrect inference and cannot be always applied to panel data. Firm-specific factors are not considered in pooled OLS when applied to panel data which result in autocorrelation as there is no isolation of the years in the same firm. It could also result in omitted variables bias and heterogeneity bias because observations could have similar characteristics that are not considered (Baddeley & Barrowclough, 2009). A fixed-effects model or random-effects model is used to control for heterogeneity effect in panel data regression. The major distinction between the two approaches is whether the unobserved effects (the error term) are correlated with the examined independent variables (Wooldridge, 2010).

Baltagi (2012) and Hsiao (2014) explained several advantages of panel data over pure time-series and pure cross-sectional analysis summarized as follows:

1. More data provide more information: panel data is richer with information as it normally comprises time-series and cross-sectional data. Therefore, more informative data could provide less collinearity, more variability, more efficiency and greater degree of freedom.
2. Controlling for individual heterogeneity: cross-sectional and time-series data do not control for heterogeneity which may produce biased findings (Moulton, 1986, 1987). In panel data, each of the examined individuals is assumed to be

heterogeneous. Panel data also resolves the issue of omitted variables due to no observed items or mismeasurement.

3. Less multicollinearity: time-series data is usually criticized over the issue of multicollinearity, which is less in panel data as the cross-sectional dimension usually increases the variability and adds more information on the examined variables. The variation in panel data is actually decomposed between the time-series and cross-sectional dimensions. The cross-sectional variation is usually larger which provides more information that can produce reliable estimates of parameters.
4. Better in measurement: Panel data are able to measure and identify effects that are basically not detectable in time-series or cross-sectional data. Panel data also can minimize measurement errors.
5. The ability to test complicated models: more complicated Behavioral models can be better constructed and tested in panel data than in time-series or cross sectional data. Panel data also can study the dynamics of adjustment.

4.4.2.1 Fixed Effects Model

Individual characteristics might be connected to each entity. These characteristics are constant across time and have possibilities to affect the dependent variables. Fixed effects actually examine the relationships between variables within an individual, whether it is a firm or country, etc. This means that the fixed-effect model takes into consideration the differences between the individual and itself within the period and this could control for any unobserved unique characteristics or the time-invariant factors which may bias the results (Allison, 2009; Wooldridge, 2010).

The error term in a fixed-effects method is correlated with the independent variables. Therefore, a fixed-effects method is believed to eliminate the impact of unobserved time-invariant characteristics of independent variables and make the estimation assessable (Allison, 2009; Wooldridge, 2010).

4.4.2.2 Random Effects Model

The main benefit of the random effects estimate is its ability to examine time constant independent variables, which are dropped in the fixed-effects estimate. This assumes that the unobserved effect is not correlated with the independent variables regardless of the variation over time (Schmidheiny & Basel, 2011). Therefore, the random-effects method might be preferable if the main concern of the research is time-constant variables. Random-effects might be biased, however, if the appropriate method is fixed-effects.

4.4.2.3 Model Specification

The Hausman test is the generally accepted way to determine whether the fixed or random effects method is appropriate for the examined data. Statistically, the fixed effects model always provides consistent results, which many researchers such as Bokpin et al. (2015), Mangena and Tauringana, (2007) and Miletkov et al. (2014) think is the reasonable model to run with panel data, but it might not be the most efficient. However, the random effects model provides better p-values and can be a more efficient estimator, which makes it more appropriate only if it is statistically justifiable. Therefore, the Hausman test should be applied in any panel data research to determine the appropriate method.

4.4.2.4 Multivariate Regression Analysis

As discussed earlier, to test proposed model this study employed the multivariate regression using panel data (STATA version 14).

4.5 Regression Models

To achieve the objectives of the current study, two models were created as follows:

4.5.1 Model 1

The current study utilizes panel data analysis (fixed-effects) to determine the influence of the independent variables such as the board size, board independence, frequency meetings of BOD, board financial expertise, AC size, AC independence, meetings frequency of AC, financial expertise of AC, audit quality, family ownership, local Institutional Investors, performance (Tobin's Q), and the availability of English financial statements on foreign share ownership.

This research includes variables of leverage and firm size, inflation risks, exchange rate risks and economic growth (GDP) as a control variable. It also includes the political risks variable as a control variable that may affect foreign share ownership.

The regression model is as follows:

$$FSO_{it} = \alpha_0 + \beta_1 BODSIZE_{it} + \beta_2 BODIND_{it} + \beta_3 BODMEE_{it} + \beta_4 BODEXPERT_{it} + \beta_5 ACSIZE_{it} + \beta_6 ACIND_{it} + \beta_7 ACMEET_{it} + \beta_8 ACEXPERT_{it} + \beta_9 BIG4_{it} + \beta_{10} FAMOWN_{it} + \beta_{11} INSTITUT_{it} + \beta_{12} TQ_{it} + \beta_{13} ENADOP_{it} + \beta_{14} FMSIZE_{it} + \beta_{15} LEV_{it} + \beta_{16} PR_{it} + \beta_{17} ERR_{it} + \beta_{18} IR_{it} + \beta_{19} GDP_{it} + \varepsilon_{it.}$$

Where;

FSO_{it} = Foreign Share Ownership is the dependent variable for firm i in period t.

α_0 = Constant.

$BODSIZE_{it}$ = Board Size

$BODIND_{it}$ = Board Independence

$BODMEE_{it}$ = Board Meetings

$BODEXPERT_{it}$ = Board Financial Expertise

$ACSIZE_{it}$ = Audit Committee Size

$ACIND_{it}$ = Audit Committee Independence

$ACMEET_{it}$ = Audit Committee Meetings

$ACEXPERT_{it}$ = Audit Committee Financial Expertise

$BIG4_{it}$ = Audit Quality

$FAMOWN_{it}$ = Family Ownership

$INSTITUT_{it}$ = Local Institutional Ownership

TQ_{it} = (Tobin's Q) ratio; proxy for market measurement of firm performance

$ENADOPT_{it}$ = Adoption of English language as an external financial reporting

$FMSIZE_{it}$ = Firm Size

LEV_{it} = Leverage

PR_{it} = Political risks rate per each GCC country, namely, Bahrain, Oman, Qatar, Saudi Arabia, and the United Arab Emirates

ERR_{it} = Exchange Rate Risk per GCC each country, namely, Bahrain, Oman, Qatar, Saudi Arabia, and the United Arab Emirates

IR_{it} = Inflation Risk per each GCC country, namely, Bahrain, Oman, Qatar, Saudi Arabia, and the United Arab Emirates

GDP_{it} = Gross Domestic Product (GDP) per each GCC country, namely, Bahrain, Oman, Qatar, Saudi Arabia, and the United Arab Emirates

ε = Random Error.

4.5.2 Model 2

Model 2 examines the relationship between the effectiveness of the BOD, AC and the foreign share ownership. Model 2 also includes independent variables such as audit quality, performance (Tobin's Q), family ownership, local institutional investors, availability of English financial reporting and control variables that are firm size, leverage, political risks, inflation risks exchange rate risks and economic growth that are measured by GDP.

This method is grounded on the notion that the effect of internal governance mechanisms on foreign ownership is complementary, as an increase (decrease) in the characteristics that boost the BOD and AC effectiveness lead to an increase (decrease) in the level of foreign ownership in GCC (Cai et al., 2015). In addition, this method is built on the rationale that the characteristics of corporate governance are complementary to each other whereby one characteristic depends on the other characteristic to achieve more effectiveness (Davis & Useem, 2002; Rediker & Seth, 1995). Similarly, O'Sullivan et al. (2008) argued that exploring the corporate governance mechanisms as a score provides a more accurate measurement than examining them separately.

The score construction adopted here is similar to that used by Goh (2009), and Johl et al. (2013), who aggregated the number of characteristics of corporate governance to

produce a composite corporate governance. Following the same logic, this study examines the characteristics of the BOD altogether and the AC altogether to capture their aggregate relationship within firms to determine whether they are associated with the foreign share ownership.

The regression model is as follows:

$$FSO_{it} = \alpha_0 + \beta_1 BODSCORE_{it} + \beta_2 ACSCORE_{it} + \beta_3 BIG4_{it} + \beta_4 FAMOWN_{it} + \beta_5 INSTITUT_{it} + \beta_6 TQ_{it} + \beta_7 ENADOP_{it} + \beta_8 FMSIZE_{it} + \beta_9 LEV_{it} + \beta_{10} PR_{it} + \beta_{11} ERR_{it} + \beta_{12} IR_{it} + \beta_{13} GDP_{it} + \varepsilon_{it}$$

Where;

$BDSCORE_{it}$ = composite measurement of board characteristics, namely, size, independence, meetings and financial expertise.

$ACSCORE_{it}$= composite measurement of AC characteristics, namely, size, independence, meetings and financial expertise.

4.6 Measurement and Definition of Variables

This section explains the measurement and the definitions of the variables for the study.

4.6.1 Dependent Variable

The dependent variable is the FSO that is defined as foreign ownership held by foreign investors (Mangena & Tauringana, 2007). Thus, this applies in particular to international investors and Arab investors from outside the GCC (Kern, 2012). This based on the Unified Economic Agreement, which states that "*The Unified Economic Agreement which entered into force in 1982 and laid down the principles of a GCC free*

trade area, the free cross-border movement of citizens and the coordination of banking, financial and monetary policies" (Kern, 2012). For example, investors from Saudi Arabia are considered to be GCC citizens for Bahrain, Emirates, Oman and Qatar (Kern, 2012). Therefore, this study excluded GCC investors. Previous studies such as Bokpin and Isshaq (2009), Bokpin et al. (2015), Mangena and Tauringana (2007), Miletkov et al. (2014), Min and Bowman (2015) and Suwaidan et al. (2013) measured FSO as the percentage holding by foreign investors. Therefore, in this study, FSO is measured as percent of total shares outstanding, that foreign investors owned in company at the end of the financial year.

4.6.2 Measurements of Independent Variables

This section explains the definition of the independent variables and their measurement.

4.6.2.1 Measurement of Board of Directors Characteristics

According to Mangena and Tauringana (2007) the BOD size is the total number of BOD members; the BOD independence is measured by the percentage of the total number of independent non-executive members divided by the total number of BOD members. BOD financial expertise is as dummy variable coded 1 if at least one board member has an educational qualification in accounting or financial experience and career history and 0 if otherwise; and the BOD meetings is measured by the frequency of BOD meetings (Agrawal & Chadha, 2005; Goh, 2009; Saleh et al., 2007; Xie et al., 2003) (see Table 4.19).

4.6.2.1.1 Board Size Measurement

Based on the previous studies such as Bokpin and Isshaq (2009), Mangena and Pike (2005), Mangena and Tauringana (2007) and Min and Bowman (2015), board size is the total number of directors on the board of the company, which includes executive directors and non-executive directors at the end of financial year. Therefore, this study measured, board size as the total number of directors on the board of a company.

4.6.2.1.2 Board Independence Measurement

Based on Jensen and Meckling (1976) the independence board is defined as percentage of independent directors in the board of company. This study measures the board independence by total number of independent directors on the board divided by the total number of board members (Li & Qi, 2008; Miletkov et al., 2014; Min & Bowman, 2015; Suwaidan et al., 2013).

4.6.2.1.3 Board Meetings Measurement

In this study, the board meetings are measured as the number of meetings held by the BOD during the financial year. The same measurement has been utilized by prior studies (Al-Matari et al., 2012; Liang, Xu, & Jiraporn, 2013).

4.6.2.1.4 Board Financial Expertise Measurement

Based on Jeanjean and Stolowy (2009), an expert is considered to be an expert in financial accounting and corporate finance. Therefore, this study measures board financial expert as dummy variable coded 1 if at least one board member has an educational qualification in accounting or financial experience and career history and 0 if otherwise (Agrawal & Chadha, 2005; Jeanjean & Stolowy, 2009).

4.6.2.1.5 Board of Director's Effectiveness (BODSCORE) Measurements

This study adopts the steps taken by studies in literature including Chobpichien et al. (2008), DeFond, Hann, and Hu (2005), Johl et al. (2013) and Zaman et al. (2011). It employs a complex governance score to assess the BOD effectiveness, with each of the four board characteristics (size, independence, meetings and financial expertise) individually analysed. As indicated from Table 4.17, the composite is employed to develop a measurement synopsis of the BOD effectiveness, in which each score ranges from 0 to 1. Then, the sum of four components is found, and this score ranges from 0 to 4 where 0 indicates that the effectiveness of BOD is low, and 4 indicates the effectiveness high of the board is high.

Table 4.17
Board of Director's Effectiveness (BODSCORE) Measurement

Variable	Acronym	Measurement	Source
Board size	BODSIZE	A value of "1" is given, if the number of board members is larger than the sample median and if otherwise equals "0".	Chobpichien et al. (2008) and Johl et al. (2013)
Board independence	BODIND	A value of "1" is given, if the independent board members is larger than the sample median and if otherwise equals "0".	Chobpichien et al. (2008)
Board meetings	BODMEET	A value of "1" is given, if the number of meetings is more than the sample median and if otherwise equals "0".	Chobpichien et al. (2008) and Johl et al. (2013)
Board financial expertise	BODEXPERT	A value of "1" is given, if the board of director includes at least 1 director with financial expertise, and if otherwise equals "0"	Chobpichien et al. (2008) and Johl et al. (2013)
Board of directors effectiveness score	BODSCORE	This is sum of the four components. It ranges from 0-4 with "0" indicating the lowest effectiveness and "4" the highest effectiveness of the board.	Chobpichien et al. (2008) and Johl et al. (2013)

4.6.2.2 Measurement of Audit Committee Characteristics

According to Mangena and Tauringana (2007) the AC independence is measured by the percentage of the total number of independent non-executive members divided by the total number of AC members. AC size is the total number of AC members; AC financial expertise as dummy variable coded 1 if at least one AC member has an educational qualification in accounting or financial experience and career history and 0 if otherwise; and the AC meetings is measured by the frequency of AC meetings (Goh, 2009; Saleh et al., 2007; Xie et al., 2003) (see Table 4.4).

4.6.2.2.1 Audit Committee Size Measurement

AC size is the total number of directors in AC at the end of year, which has been used by previous studies (Al-Matari et al., 2012; Bokpin & Isshaq, 2009; Mangena & Tauringana, 2007). AC size measure in this study is the total number of directors in the AC that are mentioned in the annual report at the end of accounting year.

4.6.2.2.2 Audit Committee Independence Measurement

The independence of the AC refers to the number of independent directors in the AC (Al-Matari et al., 2012; Mangena & Tauringana, 2007), which has been used by previous studies (Bokpin & Isshaq, 2009; Goh, 2009; Klein, 2002; Mangena & Tauringana, 2007). This study measured the independence of AC by the proportion of the independent directors in the AC.

4.6.2.2.3 Audit Committee Meetings Measurement

AC meeting is defined as the number of meetings of the AC held in the year (Abbott et al., 2004; Hsu & Petchsakulwong, 2010; Goh, 2009; Liang et al., 2013). Therefore, this study measured AC meetings by the number of meetings during a year for the AC.

4.6.2.2.4 Audit Committee Financial Expertise Measurement

The financial expertise of AC is measured as the proportion of AC members who have experience or a qualification in accounting or finance. This includes members of professional accounting bodies (Goh, 2009; Krishnan & Visvanathan, 2008; Mangena & Pike, 2005) This study measured AC financial expertise as a dummy variable coded 1 if at least one member of the AC has educational qualification in accounting (e.g., bachelor's Degree) or financial management qualification or financial experience and 0 if otherwise.

4.6.2.2.5 Audit Committee Effectiveness (ACSCORE) Measurements

The literature contains studies like Chobpichien et al. (2008), DeFond and Francis (2005) and Zaman et al. (2011) that have employed a composite governance score to measure AC effectiveness, and the present study is no different. The score is a composite measurement of the total value of the four dichotomous AC characteristics to develop a summarized version of its effectiveness. The sum of the four components ranges from 0-4 where 0 indicates that the effectiveness of the AC is low, and 4 indicates that the effectiveness of the AC is high (See Table 4.18).

Table 4.18
Audit Committee Effectiveness (ACSCORE) Measurement

Variable	Acronym	Measurement	source
Audit committee size	ACSIZE	A value of "1" is given, if AC size is larger than the sample median, and if otherwise equals "0".	Chobpichien et al. (2008) and Zaman et al. (2011)
Audit committee independence	ACIND	A value of "1" is given, if the independence of the AC members is larger than the sample median, and if otherwise equals "0".	Chobpichien et al. (2008)
Audit committee meetings	ACMEET	A value of "1" is given, if the number of meetings is more than the sample median and if otherwise equals "0".	Chobpichien et al. (2008) and Zaman et al. (2011)
Audit committee financial expertise	ACEXPERT	A value of "1" is given, if AC includes at least 1 director with financial expertise, and if otherwise equals "0".	Chobpichien et al. (2008) and Zaman et al. (2011)
AC effectiveness score	ACSCORE	The sum of the four components. AC scores range from 0-4 with a higher score indicating a higher effectiveness of the AC.	Chobpichien et al. (2008) and Zaman et al. (2011)

4.6.2.3 Audit Quality Measurement

Audit quality is measured through the presence or absence of Big 4 audit firms, namely PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst and Young, and KPMG (Al-Shammari & Al-Sultan, 2010; Francis & Yu, 2009; Kilgore, 2007). Therefore, this study used Big Four audit firms to measure audit quality. If the auditor firm is one of the Big4 audit firms, it is coded 1 and if otherwise 0.

4.6.2.4 Ownership Structure Measurement

4.6.2.4.1 Family Ownership Measurement

Using previous studies such as Lim et al. (2014), Anderson and Reeb (2003) and Jiang and Habib (2009), this study measured family ownership as a percentage of shares held by shareholders and their relatives with equity ownership of 5% and more whether these

shareholders were independent or non-independent from management either individuals, institutions or executive and non-executive directors.

4.6.2.4.2 Local Institutional Ownership Measurement

Local institutional investors are defined as institutional ownership held by local institutions such as banks, insurance and pension funds (Dahlquist & Robertsson, 2001). Utilizing Al-Najjar (2010) and Al-Shammari et al. (2008), this study measured local institutional ownership as proportion of shares hold by local institutional investors such as banks, insurance and pension funds.

4.6.2.5 Performance (Tobin's Q) Measurement

In 1968, economics professor James Tobin at Yale University developed Tobin's Q as a measurement of firm performance. TQ refers to the market value ratio of assets to the book value of assets, and the market value of assets is often measured by the market value of equity plus the book value of total liabilities (Amran & Ahmad, 2009; Ang & Ding, 2006; Ganguli & Agrawal, 2009; Meyer, 2003; Shah & Hussain, 2012). This measurement reflects shareholders' expectations regarding the future performance of the firm, which is based on past or current performance (Ganguli & Agrawal, 2009). Importantly, the adoption of the market value of the firm as a numerator of Tobin`s Q to a large extent shows accounting profit rates (Ganguli & Agrawal, 2009; Shah & Hussain, 2012). The current study also utilized the TQ ratio as measurement of firm performance where the sum of the market value of equity and book value of total debts is divided by the book value of total assets.

4.6.2.6 Adoption of the English Language as an External Financial Reporting Measurement

Utilizing Jeanjean et al. (2014), this study measured adoption of English language as a dummy variable to be coded 1 if the firm had an English annual report during the sample period, and if otherwise 0.

4.6.3 Measurement of Control Variables

4.6.3.1 Firm Size Measurement

According to Al-Najjar (2010), Bokpin and Isshaq (2009), Dahlquist and Robertsson (2001), Jiang and Kim (2004), Leuz et al. (2010) and Lin and Shiu (2003) foreign investors are more inclined towards investing in large firms, firms that profitable and firms that have good cash positions reported on their balance sheets. Utilizing Bokpin and Isshaq (2009), the current study measured firm size by utilizing the natural logarithm of the total assets.

4.6.3.2 Leverage Measurement

Utilizing Bokpin and Isshaq (2009) and Miletkov et al. (2014), the current study measured the leverage of a firm (debt) by total liabilities dividing by the total assets.

4.6.3.3 Political Risks

Utilizing Al-Jaifi et al. (2016), Busse and Hefeker (2007), Chakrabarti (2001), Khrawish and Siam (2010), Kolstad and Villanger (2008), Musonera, (2008) and Quer et al. (2017), this study measured the political risk variable by the International Country Risk Guide (ICRG), which gives an annual assessment of the political stability of GCC countries. The index score of the political risk ranges from 0 to 100, whereby the lower risk is indicated by a higher score, and vice versa. To facilitate the interpretation of the

results of this variable in this study, the score is transformed (one hundred minus the score) so that a high number implies high risk while a low number implies a low risk (Al-Jaifi et al., 2016; Solomon & Ruiz, 2012; Quer et al., 2017).

The measurement of political risk index comprises twelve items, namely; Government Stability, Socioeconomic Conditions, Investment Profile, Internal Conflict, External Conflict, Corruption, Military in Politics, Religious Tensions, Law and Order, Ethnic Tensions, Democratic Accountability, and Bureaucracy Quality.

4.6.3.4 Exchange Rate Risks

Adam and Tweneboah (2009) used Ghana cedi to US dollar exchange rate risk as means of measuring of macroeconomic stability. They used quarterly data that was obtained from IMF International Financial Statistics (IFS).

Therefore, this study measures exchange rate risk employing the yearly proportion change of the nominal exchange rate of local currencies of the GCC countries to the US dollar during the financial year for the period of this study 2012-2015 where the US dollar is the most foreign currency traded in GCC countries. Data were obtained from the World Bank.

4.6.3.5 Inflation Risk

Foreign investors expected that the Inflation risks affects the rate of return (Bouoiyour, 2007; Busse & Hefeker, 2007; Cavallo, 2013; Waqas et al., 2015). The GDP deflator has been utilized as inflation proxy by Bouoiyour (2007), Busse and Hefeker (2007) and Cavallo, (2013). Therefore, this study uses secondary data to measure inflation risk

by utilizing the yearly proportion of change in the GDP deflator per each GCC country, namely, Bahrain, Oman, Qatar, Saudi Arabia, and the United Arab Emirates during period 2012- 2015. According to Cavallo (2013), GDP deflator is a measure of the prices of all goods and services while the CPI is a measure of only goods bought by consumers.

4.6.3.6 Economic Growth (GDP)

Waqas et al. (2015) stated that the financial flow has a relationship with host developing countries GDP growth rates. It has been argued that, when economic growth is rising, then the income of workers will be expected to increase, therefore, leading to an increase consumption that will lead to pro cyclical capital flow. Waqas et al. (2015) measured economic growth by using the GDP growth rate; therefore, this study measured measure economic growth by employing the yearly GDP growth rate of each GCC countries, namely, Bahrain, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, for four years 2012-2015.

Table 4.19 summarized the measurements of all variables of the current study.

Table 4.19
Summary of Variables Measurements.

Name of Variable	Acronym	Measurement	Sources
Foreign share ownership	FSO	Percent of the total shares outstanding, that foreign investors (foreign and arab investors from out GCC countries) owned in company at the end of the financial year.	Bokpin & Isshaq, 2009; Bokpin et al., 2015; Mangena & Tauringana, 2007; Min & Bowman, 2015; Miletkov et al., 2014; Suwaidan et al., 2013

Table 4.19 (continued)

Name of Variable	Acronym	Measurement	Sources
Board size	BSIZE	Total number of directors on the board of the company	Bokpin & Isshaq, 2009; Mangena & Pike, 2005; Mangena & Tauringana, 2007; Min & Bowman, 2015
Board independence	BIND	Total number of independent directors on the board divided by the total number of board members	Mangena & Tauringana, 2007; Min & Bowman, 2015; Miletkov et al., 2014
Board meetings	BMEE	Frequency number of meetings held by the BOD during the year	Al-Matari et al., 2012; Liang et al., 2013
Board financial expertise	BEXPERT	Dummy variable coded 1 if at least one member of the board members has accounting or financial management experience and 0 if otherwise	Agrawal & Chadha, 2005; Jeanjean & Stolowy, 2009
Board of Director's Effectiveness	BODSCORE	This is sum of the four components. It ranges from 0-4 a higher score indicating a higher effectiveness of the BOD	Chobpichien et al. 2008; Johl et al. 2013
Audit committee size	ACSIZE	Total number of directors in the AC that are mentioned in the annual report at the end of accounting year.	Mangena & Tauringana, 2007
Audit committee independence	ACIND	Proportion of independent directors on the AC	Bokpin & Isshaq, 2009; Goh, 2009; Klein, 2002; Mangena & Tauringana, 2007
Audit committee meetings	ACMEET	Number of meetings during a year for the AC	Hsu & Petchsakulwong, 2010

Table 4.19 (continued)

Name of Variable	Acronym	Measurement	Sources
Audit committee financial expertise	ACEXPERT	Dummy variable coded 1 if at least one member of the AC has accounting or financial management experience; 0 if otherwise	Mangena & Pike, 2005.
Audit Committee effectiveness	ACSCORE	The sum of the four components. AC scores range from 0-4 with a higher score indicating a higher effectiveness of the AC.	Chobpichien et al., 2008; Zaman et al., 2011
Audit quality	AQ	If the auditor firm is one of the Big Four audit firms coded 1; if otherwise 0	Al-Shammari& Al-Sultan, 2010
Family ownership	FAMOWN	A percentage of shares held by shareholders and their relatives with equity ownership more than 5 percent. Whether these shareholders are independent or non-independent from management either individuals, institutions or Executive and non-executive directors.	Anderson & Reeb, 2003; Jiang & Habib, 2009
Local institutional ownership	INSTITUTIONAL	Proportion of shares held by local institutional investors.	Al-Shammari et al., 2008

Table 4.19 (continued)

Name of Variable	Acronym	Measurement	Sources
Firm performance	TQ	Utilized the TQ ratio (the sum of the market value of equity and book value of total debts is divided by the book value of total assets).	Ganguli & Agrawal, 2009; Shah & Hussain, 2012
Adoption of English language in external financial reporting	ENADOP	A dummy variable coded 1 if the company had an English annual report during the sample period and 0 if otherwise	Jeanjean et al., 2014
Firm size	FMSIZE	Natural logarithm of the total assets	Bokpin & Isshaq, 2009
Leverage	LEVERAGE	The total liabilities dividing by the total assets.	Bokpin & Isshaq, 2009; Miletkov et al., 2014
Political risks	PR	Political risk index provided by International Country Risk Rating (ICRG)	Al-Jaifi, Abdullah & Regupathi, 2016; Busse & Hefeker, 2007; Khrawish & Siam, 2010; Kolstad & Villanger, 2008; Musonera, 2008; Solomon, & Ruiz, 2012; Quer, Claver & Rienda, 2017
Exchange rate risks	EER	Proportion of change of the nominal exchange rate of local currencies of the GCC to US dollar	Adam & Tweneboah, 2009

Table 4.19 (continued)

Name of Variable	Acronym	Measurement	Sources
Inflation risk	IR	Yearly percentage of change in the GDP deflator	Busse & Hefeker, 2007
Economic growth (GDP)	GDP	Yearly GDP growth rate	Waqas et al., 2015

4.7 Chapter Summary

This chapter explains the study framework, presenting BOD characteristics, AC characteristics and other factors that impact foreign share ownership. The hypotheses imply that these variables impact FSO in the publicly listed firms in stock markets of the Gulf Cooperation Council (GCC). Moreover, this chapter provides in detail the sample selection, data sources and techniques used to test the hypothesis. Additionally, this chapter presents regression models of this study and the variable measurements. The findings of the study are discussed in the following chapter.

CHAPTER FIVE
RESULTS AND DISCUSSION

5.0 Introduction

This chapter reports and discusses the findings of the foreign share ownership framework (Model 1 & 2). Specifically, Chapter five seeks to provide answers to the research questions, as follow:

Research question 1: What is the relationship between corporate governance mechanisms and foreign share ownership in GCC listed companies?

Research question 2: What is the relationship between ownership structure and foreign share ownership in GCC listed companies?

Research question 3: What is the relationship between firm performance (Tobin`s Q) and foreign share ownership in GCC listed companies?

Research question 4: What is the relationship between the adoption of the English language to report financial reporting and foreign share ownership in GCC listed companies?

This chapter has been structured as follows; **Section 5.1** presents the descriptive statistics of the variables and **Section 5.2** presents the univriate analysis. **Section 5.3** presents the selects between Pooled OLS Regression and Random Effect. **Section 5.4** selects between Fixed Effect and Random Effects. **Section 5.5** presents diagnostic tests including normality, outliers, multicollinearity, Heteroskedasticity, autocorrelation and the bivariate correlations of the variables used in examining the relationship among the characteristics of the board of director, characteristics of the AC, audit quality, family ownership, local institutional investors, firm performance and the adoption of English

language of financial reporting and foreign share ownership. **Section 5.6** presents the regression analysis results and discusses the findings. Finally, **Section 5.7** gives a summary of the chapter four.

5.1 Descriptive Statistics

Table 5.1 summarises the descriptive statistics of FSO models in the study, which comprises all independent variables. The results on the FSO in the four years (2012, 2013, 2014 and 2015) with 768 firms, of which 568 firms have FSO and the remaining 200 do not have FSO, which will be discussed in the section of univariate findings. Table 5.1 show that the mean percentage of shares owned by foreign investors was 10%, with the lowest holding of zero and the highest holding of 64%. The zero minimum value for the foreign share ownership indicates that there were companies that did not have share hold by foreign investors in their capital.

Table 5.1 shows the mean, maximum, minimum and standard deviation for all continuous and dichotomous variables. The mean board size (BDSIZE) reported in this study was 8.082. The mean of the board size of the sampled firms of this study was not much different from previous studies of the GCC. Aljifri and Moustafa (2007) found 8. Al-Abbas (2009), and Ghabayen (2012) found 8. Al-Matari et al. (2014) reported 7.10. According to Lipton and Lorsch (1992), this is generally good for firm performance as the ideal number of board members should be seven or eight. Firsteberg and Malkiel (1994) also contended that a board with less than eight members can maintain an accurate focus, participation and productive interaction and debate.

In terms of board independence, the mean independent directors in GCC listed companies was almost 0.504 of the total number of BOD, with a minimum value of zero and a maximum value of 1 (100%) board's independence.

Table 5.1
Descriptive Statistics of Continuous Variables (n = 768)

Variable	Observations	Mean	Std. Dev.	Min	Max
FSO	768	0. 10	0. 145	0	0.64
BODSIZE	768	8.082	1. 814	5	18
BODIND	768	0.504	0.222	0	1
BODMEE	768	5.77	1.83	0	16
BODSCORE	768	1.729	1.227	0	4
ACSIZE	768	3.501	0.722	3	6
ACIND	768	0.586	0.270	0	1
ACMEET	768	4.759	1.42	0	12
ACSCORE	768	1.529	1.18	0	4
FAMOWN	768	0. 616	5.715	0	0.795
INSTITUTION	768	0. 08	0.12	0	0.558
TQ	768	1.334	0. 844	0. 179	4.85
FMSIZE	768	10.319	3.924	3.329	18.40
LEV	768	22.566	20.227	0	107.86
PR	768	20.3	6.371	11	37.042
ERR	768	0.00002	0.00008	-0.00015	0.00021
IR	768	-13.62	53.712	-168.651	114.376
GDP	768	4.598	1.860	2.543	9.333

Note: FSO_{it} = Foreign Share Ownership; $BDSIZE_{it}$ = Board Size; BDIND = Board Independence; BDMEE = Board Meeting; ACSIZE = Audit Committee Size; ACIND = Audit Committee Independent; ACMEET = Audit Committee meeting; TQ = (Tobin's Q) ratio; proxy for market measurement of firm performance; FAMOWN = Family Ownership; INSTITUTIONAL = Local Institutional Investors; FMSIZE = Firm Size; LEV= Leverage; PR = Political risks; EER= Exchange Rate Risks; IR= Inflation risks; and GDP = Gross Domestic Product.

This mean of board independence is like the findings of previous studies in GCC countries. Ahmed and Hamdan (2015) found 0.548. Al-Matari *et al.* (2012) and Ghabayen (2012) reported 57% and 49 % respectively. This result is consistent with the recommendations of the Corporate Governance Codes in GCC countries to have at least one third of the board comprising independent directors. Some boards of directors hold fewer meetings than what the code recommends. The majority of the board should be non-executive directors because board independence has a major monitoring role (Lin, 2011) Global corporate practices indicate that independent members should be included in the board (Nuryanah & Islam, 2011). Along the same line, independent directors lessen the agency cost as they facilitate effective monitoring and strategic planning (Berle & Means, 1932).

With respect to the frequency of board meetings, the statistics indicate that the mean number of board meetings of the BOD was 5.77 with a minimum value of zero and a maximum value of 16 meetings. The mean of board meeting is like findings of the previous study in GCC countries such as Al-Matari et al. (2014) who found 5.65. The recommendations of the Codes on Corporate Governance of the GCC stipulate that the board should meet at least 4 times a year with a maximum of a 4-month gap between two meetings. The frequency of board meetings is a good indication of board effectiveness which, in turn, gives a good perception to foreign investors and increases their confidence. This can lead to the enhancement of firm performance as frequent meetings provide numerous opportunities to monitor and review management performance (Hsu & Petchsakulwong, 2010). This is consistent with the statement of Evans et al. (2002) who claimed that the board of directors often increase their board meetings to solve problems relating to the firm's poor performance.

Table 5.1 summarises the effectiveness of the board (BODSCORE) with a mean of 1.73 with a minimum value of 0 and maximum value of 4. A score of "0" means that all the four characteristics of BOD (size, independence, meeting and expertise) are lower than the median of the sample which reflects low effectiveness, while "1" indicates high effectiveness of the BOD.

Regarding AC, the descriptive statistics indicate that the mean AC size is 3.501 with a minimum value of 3 and maximum value of 6. The mean of AC is not that different from the previous studies in GCC countries. Al-Matari et al. (2012) and Ghabayen (2012) found the mean of AC size was 3. Concerning the codes of corporate governance codes in GCC countries, the audit committee should comprise at least three members and Fama and Jensen (1983) support this, claiming that three members are essentially good for the performance of the firm. Meanwhile, Jensen and Meckling (1976) stated that the audit committee is among the main elements of a CG system that play a crucial role in administering the internal control framework effectiveness and the financial reporting review of the firm.

In terms of the AC independence, Table 5.1 indicates that 0.586 of the AC members were independent directors. This result indicates that GCC listed companies are in line with international codes such as the Cadbury Committee (1992), the Blue Ribbon Conlnlittee (1999), the Sarbanes-Oxley Act (2002), the Organisation for Economic Cooperation and Development's (OECD, 2004) and the Codes of Corporate Governance in GCC countries, which require that the majority of the audit committee must be independent. This study was similar with studies such as Al-Matari et al. (2012) who reported a similar result regarding the mean of AC independence. Swamy's (2011)

study claimed that non-executive members serving on the committee have a key role in ensuring that compliance with CG practices impact a financial report.

This statistic indicates that the mean number of meetings for the AC in the most of GCC listed firms was 4.76 with a minimum value of 0 and maximum value of 12. This result is consistent with the guidelines provided by the Cadbury Committee (1992) in the United Kingdom and the Blue Ribbon Committee (1999) in the United States. The guidelines mandate that audit committees hold meetings not less than three times in a year. This is consistent with the codes of corporate governance of GCC countries, which recommend that mandates the committees to hold the meetings, at least four times yearly with a majority of independent directors. This result is also similar with the previous study of GCC countries by Al-Matari et al. (2012) who reported 4.862.

Table 5.1 further reveals that the average score for the effective AC (ACSCORE) was 1.528 with a minimum value of 0 and a maximum value of 4. Where, a value of "0" reflects low effectiveness for AC's characteristics (size, independence, meeting and expertise) and "1" reflects that all the four characteristics of AC were larger than the median of the sample reflecting high effectiveness.

With respect to the ownership structure, Table 5.1 shows that the percentage of family shareholdings for the sample ranged from 0 to 79.5% with a mean of 61.6%. However, the mean value of 61.6% for family ownership indicates that families dominated GCC-listed companies. The mean of family ownership of the sampled firms of this study was not much different from previous studies of the GCC. Al-Bassam et al. (2018) found the mean of family ownership in GCC listed companies to be 61.96%, and Ahmed and

Hadi (2017) found 58.9%. Santos (2015) stated that 70% of businesses activity in the GCC was family owned and dominated. The total percentage of foreign, family and local institutional ownership was 79.6%, and managers, local individual investors and GCC investors held the remaining 20.4% of ownership of the capital.

In terms of institutional ownership, the percentage varied from 0 to 55.8%, with mean shareholdings of 8%. The mean of local institutional investors indicated a low institutional ownership in the listed companies. This result consistent with Santos (2015) and (Kern, 2012) who stated that GCC-listed companies have a low percentage owned by local institutional investors. Moreover, the mean of this study regarding local institutional investors is like the findings of previous studies of the GCC. For example, Al-Bassam et al. (2018) found 6.98%. Hussainey and Aljifri (2012) found 11%.

With respect to firm performance which was proxied by Tobin's Q; Table 5.1 indicates that the mean TQ was 1.334 with a minimum value of 0.179 and a maximum value of 4.85. The mean of the Tobin's Q is not different from the previous studies in GCC countries. Hussainey and Aljifri (2012) found 1.33 and Buallay et al. (2017) found 1.852.

In terms of the control variables, Table 5.1 shows that the mean firm size (FSIZE) was 10.319 and that the FSIZE of companies had a minimum of 3.329 and a maximum of 18.40. The sample had a mean of leverage (LEV) level of 22.566 with a minimum value of 0 and a maximum value of 107.86. The mean of political risks (PR) was 20.30, with a minimum value of 11 and a maximum value of 37.042.

Table 5.1 shows that the mean of the percentage change of exchange rate risks (ERR) was 0.00002. The maximum value of 0.00021 indicates that the currencies of GCC countries are stabile in their exchange rates relative to foreign currencies (U.S dollar). With respect to inflation risks, Table 5.1 shows that the mean of the percentage change of inflation risks (IR) was -13.62 with a minimum of -168.651 and a maximum of 114.376. As for economic growth (GDP), Table 5.1 shows that the mean of GDP was 4.598 with a minimum of 2.543 and a maximum of 9.333.

In terms of board expertise, the descriptive statistics in Table 5.2 show that 278 firms-years (36.20%) had members with financial expertise in their boards of directors. While 490 firms-years (63.80%) did not have financial expertise on their boards of directors.

With respect to the AC expertise, Table 5.2 shows that 201 firms-years (26.17%) had members with financial expertise serving on the AC, while 567 firms-years (73.83%) did not have members with financial expertise serving on the AC.

Table 5.2
Descriptive Statistics of Dichotomous Variables

Variable Name	Observations	Frequency		Percentage	
		1	0	1	0
BODEXPERT	768	278	490	36.20%	63.80%
ACEXPERT	768	201	567	26.17%	73.83%
BIG4	768	495	273	64.45%	35.55%
ENADOP	768	448	320	58.33%	41.67%

Note: BDEXPERT = Board Financial Expertise; ACEXPERT = Audit Committee Financial Expertise; BIG4 = Audit Quality; ENADOPT = provide financial reporting in English language.

In terms of the audit quality (BIG4), which represents the external audit quality, Table 5.2 shows that 495 firms- years (64.45%) were audited by Big 4 audit firms while firms-years (35.55%) were audited by non-Big 4 firms. These results indicate a trend to increase the quality of the external audit for companies listed on the GCC Markets.

Regarding the provision of annual reports in the English language, Table 5.2 shows that 448 firms-years (58.33%) provided an external annual report in the English language while 320 firms-years (41.67%) do not provide English annual reports.

5.2 Univariate Findings

Table 5.3 shows mean values for firms with FSO and for firms without FSO. Table 5.3 also presents t-statistics for difference-in-mean tests between two groups of firms (firms with FSO and firms without FSO). The total number of firms is 768 firm-observations, of which 568 firm-observations have FSO and the remaining 200 firm-observations did not have FSO (control companies) in their ownership structures. Many people instinctively try to choose equal sample sizes for tests of means. It is preferable to avoid unbalanced sample sizes to increase the power of the test, but it is not necessary. Unequal sample sizes are common, and the formulas still apply (Doane & Seward, 2011; Yatim et al., 2016).

The univariate analyses presented in Table 5.3 show that board of firms with FSO is bigger than control companies. However, the firms with FSO is insignificant at conventional levels (t= 1.333, p = 0.183). This result is consistent with Mangena and Tauringana (2007) who reported an insignificant relationship between board size and FSO. With regard to board independence, the analysis shows that independent director

representation is significantly higher in firms with FSO than control companies (t= 12.281, p = 0.000). This result is consistent with findings of the studies by Mangena and Tauringana (2007), Min and Bowman (2015) and Miletkov et al. (2014) found a positive and significant relationship between board independence and FSO. Moreover, firms with FSO hold meetings during a financial year more than that control companies, and the univariate analysis show that the board meeting is statistically significant (t-statistic = 2.902; p value = 0.004). This result is consistent with the previous studies by Jensen (1993) and Vafeas (1999) who stated that frequency of meetings is considered as reflecting the board's performance of their duties as consistent with the interests of the shareholder. Boards of directors of firms with FSO appear to have a significantly higher number of directors with accounting and finance qualifications than control companies as indicated by difference-in-mean test (t-statistic = 10.280; p value = 0.000). This result indicates that the foreign investors are more likely to invest in companies that have members with financial expertise on their boards (Agrawal & Chadha, 2005). The univariate results reported in Table 5.3 also show that firms with FSO have higher effective board than control companies, whereas the difference in the board effectiveness is statistically significant (t-statistic = 10.084; p value = 0.000). This result consistent with study by Al-Rassas & Kamardin (2016) who stated that effective board enhance the quality of financial reporting which, in turn, lead to increase the confidence of foreign investors.

Regarding audit committee characteristics, Table 5.3 shows that firms with FSO have big AC size than control companies. However, the difference in AC size is not at significant level (t-statistic = 0.599; p value = 0.550). This result is consistent with Mangena and Tauringana (2007) who found an insignificant relationship between AC

size and FSO. The t-statistic of AC independence indicates that the firms with FSO have significantly greater foreign ownership than control companies (t-statistic = 13.883; p value = 0.000). This result is consistent with findings of the study by Mangena and Tauringana (2007) who found a positive and significant relationship between AC independence and FSO. Regarding the AC meeting, Table 5.3 shows that the difference between firms with FSO and control companies is not statistically significant (t-statistic = 1.144; p value = 0.253). This result is consistent with Rebeiz and Salame (2006) who stated that meeting quality is what matters most and that the frequency does not always improve firm performance. Table 5.3 shows that firms with FSO have directors with financial expertise more than control companies. The t-statistic of AC expertise is significant (t-statistic = 9.776; p value = 0.000). The result is consistent with the study of Agrawal and Chadha's (2005) who mentioned that directors who have financial expertise serving on the AC increase the confidence of foreign investors. Regarding the AC effectiveness, the t-statistic shows a significant difference in foreign ownership between the firms with FSO and control companies (t-statistic = 9.343; p value = 0.000). This result is consistent with findings of the study of Eyenubo et al. (2017).

Based on the t-statistic (t-statistic = 15.009; p value = 0.000), the difference between firms with FSO and control companies in terms of engaging Big 4 audit firms in their financial reporting process is statistically significant. This result indicates that foreign investors tend to invest more in firms whose financial statements are audited by Big 4 audit firms, which are more likely to provide greater value assurance and higher audit quality (Miletkov et al., 2014).

Table 5.3 also shows that only 11.5% of firms with FSO are family owned compared to 67.3% of control companies owned by a family. The difference between firms with FSO and control companies had a negative and significant (t-statistic = -4.254; p value = 0.000). This supports the argument that foreign investors avoid investing in the firms controlled by family. This result is consistent with the finding of Miletkov et al. (2014) who found a negative relationship between family ownership and FSO. In relationship to local institutional ownership, Table 5.3 shows that 9% of firms with FSO were owned by local institutional investors compare to only 5.3% of control companies. The difference between firms with FSO and control companies was positive and significant (t-statistic = 3.714; p value = 0.000). This indicated that foreign investors are attracted to firms that have a proportion of their shares owned by institutional investors. Also, this result is consistent with (Mangena & Tauringana, 2007).

Table 5.3 shows that firms with FSO are have higher firm performance more that control companies. The difference between firms with FSO and control companies was statistically significant (t-statistic = 4.441; p value = 0.000). This result indicates that foreign investors prefer companies that have a great performance. This result is consistent with Miletkov et al., (2014) and Mangena and Tauringana (2007) who found a positive and significant relationship between firm performance and FSO.

Regarding the use of the English language in an annual report, Table 5.3 show that the issuance of an annual report in English (t= 13.921, p value = 0.000) in firms with FSO have a significantly larger foreign ownership than control companies.

Table 5.3
Test of Differences in the Mean of Firms (Control Group)

Description	Mean of firms with FSO	Mean of firms without FSO (control companies)	t	Sig. (2-tailed)
Observations	568	200	-	-
BDSIZE	8.134	7.935	1.333	0.183
BDINDR	0.558	0.353	12.281	0.000
BDMEE	5.880	5.445	2.902	0.004
BDEXPERT	0.461	0.080	10.280	0.000
BDSCORE	1.18	1.02	10.084	0.000
ACSIZE	3.511	3.475	0.599	0.550
ACINDPRC	0.658	0.382	13.883	0.000
ACMEET	4.794	4.660	1.144	0.253
ACEXPERT	0.349	0.015	9.776	0.000
ACSCORE	1.75	0.90	9.343	0.000
BIG4	0.780	0.260	15.009	0.000
FAMOWN	0.115	0.673	-4.254	0.000
INSTITUTIONAL	0.090	0.053	3.714	0.000
TQ	1.414	1.109	4.441	0.000
ENADOP	0.715	0.210	13.921	0.000
FIRMSIZE	11.406	7.233	14.615	0.000
LEV	22.922	21.553	0.823	0.411
PR2	20.037	21.047	-1.931	0.054
ERR	0.000	0.000	-0.812	0.417
IR	-13.394	-14.262	0.197	0.844
GDP	4.593	4.614	-0.138	0.890

Notes: FSO = Foreign Share Ownership; BDSIZE = Board Size; BDIND = Board Independence; BDMEE = Board Meeting; BDEXPERT = Board Financial Expertise; BODSCORE = composite measurement of board characteristics; ACSIZE = Audit Committee Size; ACIND = Audit Committee Independent; ACMEET = Audit Committee meeting; ACEXPERT = Audit Committee Financial Expertise; ACSCORE = composite measurement of Audit Committee characteristics; BIG4 = Audit Quality; TQ = (Tobin's Q) ratio; proxy for market measurement of firm performance; FAMOWN = Family Ownership; INSTITUT = Local Institutional Investors; ENADOPT = provide financial reporting in the English language; FMSIZE = Firm Size; LEV= Leverage; PR = Political risks; EER= Exchange Rate Risks; IR= Inflation risks; GDP = Gross Domestic Product. Robust standard errors in parentheses. *** p<0.01, ** p<0.05, and * p<0.1.

In relation to the control variables, for firms with FSO, Table 5.3 shows that firm size is significantly more than that in control companies (t-statistic = 14.615; p value = 0.000). This is consistent with the notion such as Mangena and Tauringana (2007) and Miletkov et al., (2014) who found a positive association between firm size and FSO. As for firm leverage, the difference between firms with FSO and control companies is not significant (t = 0.823, P > 0.411). While the political risk, the difference between

firms with FSO and control companies is negative and significant (t-statistic = -1.931; p value = 0.054). The finding of this study is similar to study by Al-Jaifi et al. (2016) who found a negative relationship between political foreign investors.

With regard to exchange rate risk, inflation risk and GDP, Table 5.3 shows that firms with FSO are slightly lower relative to control companies. However, the difference in exchange rate risk (t-statistic = -0.812; p value = 0.417), inflation risk (t-statistic = 0.197; p value = 0.844) and GDP (t-statistic = -0.138; p value = 0.890) are not significant at conventional levels. The result consistent with finding of (Waqas et al., 2015). It is important to mention that the main weakness of univariate analysis is that it examines only one variable at a time. It ignores the interaction between independent variables affecting the dependent variable. Thus, multivariate analysis is more appropriate (Wahab & Abdul Rahman, 2009).

5.3 Selecting Between Pooled OLS Regression and Random Effect

The Breusch–Pagan-Lagrangian-Multiplier examination for random effects (LM) assists in selecting between the random effect models and the pooled OLS regression (constant coefficients model). The null hypothesis in the Breusch and Pagan Lagrangian multiplier test (LM) is that variations across firms are zero. If so, then there is no significant variance across companies (no panel effect). On the other hand, if they are insignificant (*p-value, prob >chi2larger than 0.05*), this means that the null hypothesis is not rejected and then pooled OLS regression is the best to utilize. In Table 5.4, the outcome of the LM test is significant. So, there is evidence of significant differences across companies and the null hypothesis is rejected. It is concluded that the random

effects model is more appropriate; consequently, random effect regression can be run for this study (Breusch & Pagan, 1980; Gujarati, 2015).

Table 5.4
Breusch and Pagan Lagrangian Multiplier Test

	Model 1	**Model 2**
chibar2(01)	851.68***	898.14***
Prob > chibar2	0.0000	0.0000

Notes: Indicate significance at * 5%, **2.5%, and * ** 1%, respectively**.**
Model 1: foreign share ownership = Board size + Board independence + Board meeting + Board expertise + Audit committee size+ Audit committee independence + Audit committee meeting + Audit committee expertise + Audit quality + Family ownership + Local institutional ownership + Firm performance (TQ) + adoption of English language + Firm size + Leverage + Political risk + exchange rate risk + Inflation risk+ GDP
Model 2 FSO = Board effectiveness (DODSCORE) + Audit committee effectiveness (ACSCORE) + Audit quality + Family ownership + Local institutional ownership + performance (TQ) + adoption of English language + Firm size + Leverage + Political risk + exchange rate risk + Inflation risk+ GDP

5.4 Selecting Between Fixed Effect and Random Effect

The Hausman test, also known as the Hausman specification test and the Durbin–Wu–Hausman test, were first proposed by Hausman (1978) based on the difference between the estimations of random and fixed-effects. It helps researchers decide which model corresponds better to the data. The Hausman test generally compares the coefficients of fixed-effects estimate with coefficients of the random-effects estimate. The null hypothesis is that the coefficients estimated by the efficient random-effects estimator are the same as the ones estimated by the consistent fixed-effects estimator. If the p-value is significant (i.e., less than 0.05), then fixed effects should be applied and using random effects would be biased. However, if the p-value is insignificant, then random-effects can be safely used (Wooldridge, 2010). The Hausman test was applied to both models in the current study as shown in Table 5.5 below. The results show significant

p-values for both models (model 1 and model 2) which means that fixed-effects model should be used.

Table 5.5
Hausman Specification Test

	Model 1	**Model 2**
chi2	106.36***	68.75***
Prob>chi2	0.0000	0.0000

Note: Indicate significance at * 5%, **2.5%, and * ** 1%, respectively**.**

5.5 Diagnostic Tests

This section explains the diagnostic tests conducted on the data to test the regression assumptions. First, the diagnostic tests are presented on the data distributions in terms of normality, multicollinearity and extreme outliers. The diagnostic tests related to panel data are then explained, which are homoscedasticity, autocorrelation and cross-sectional dependence.

5.5.1 Normality

The common statistical normality tests are skewness and kurtosis. Skewness and kurtosis values were checked for each variable. Family ownership and firm size showed kurtosis of more than 10. Therefore, this study implemented gladder and ladder tests by Stata to seek the best transformation options of these variables. As suggested by the tests, firm size was transformed to log, and family ownership were winsorized. In addition, this study also employed graphical methods to check the normality assumption of the residuals.

The normal probability plots and histogram are used as descriptive graphical methods to test the normality assumption. In terms of residual distribution, the normal probability plots (pnorm) show the data sensitivity to non-normality in the middle range. In this test the actual data are compared with the cumulative distribution of normal distribution. Therefore, this approach is considered reliable (Hair *et al.* 2010). The normality can be seen by looking at how close the line is following the diagonal line. The results of normality test shown in Figure 4.3 also lead to the conclusion that the dataset has no serious violation of the normality assumption; therefore, it is assumed that the data are normally distributed. (See Figure 5.1).

Based on the normality plots test, there is a minor deviation. As this study examines large number of observations, the results under this condition might not be distorted. Hair *et al.* (2010) stated that for more than 200 observations, the non-normality departure is insignificant. Furthermore, as recommended, the residual was also tested using a histogram, which is sensitive, and the graph can show information about the shape of the variables better than simple numeric statistics.

Finally, any minor deviation from normality is normal in social sciences and should not cause any major problems especially when examining the entire population or if the sample size exceeds 30 observations (Pallant, 2010). In addition, this study examines a large number of observations, and, thus, the results under this condition might not be distorted. Hair et al. (2010) stated that for more than 200 observations, the non-normality departure is insignificant.

Model 1 Model 2

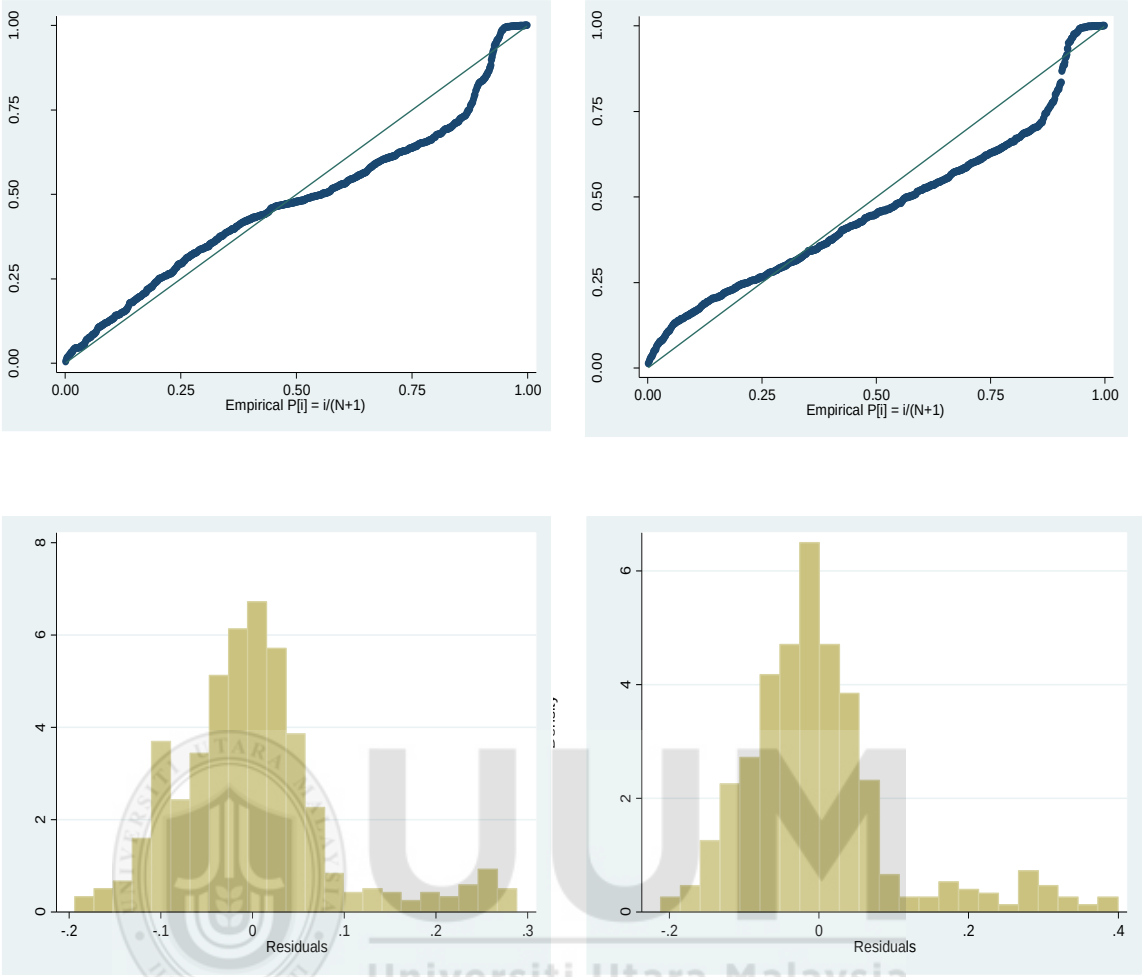

Figure 5.1.
Graphical Distributions of Residuals Normality.

5.5.2 Outliers

The cases that have extreme values are considered as outliers, which are substantially different from other cases. There are several methods to check outliers, and the influence of outliers can be characterized as either helpful or harmful. A researcher should investigate the outliers to conclude whether the observations should be deleted or retained in the sample (Hair *et al.*, 2010).

In the current study, standardised residual was used to check the possibility of having influential outliers. After running the test, any standardised residuals value (Di) that was larger than ± 3.3 is considered a problematic outlier (Tabachnick & Fidell, 2013). So, to investigate the outliers, this study ran the standardised residuals test. In the examined models, no single outlier was detected according to standardised residuals test.

5.5.3 Multicollinearity and Correlation

One common way to check for multicollinearity is the Pearson correlation matrix. The multicollinearity level and the influence of the results should be investigated prior to pronouncing that the regression results are valid. Multicollinearity refers to intercorrelation of the independent variables and reduces the ability to predict the measure and determine the relative role of each independent variable. A great degree of multicollinearity between independent variables leads to the unreliability of the estimated regression coefficient (Kline & Santor, 1999).

The presence of multicollinearity is checked in the present study by using the correlation matrix (r) for the bivariate analysis between the independent variables and the VIF. The rule of thumb proposed by Cohen and Cohen (1983) stated that multicollinearity may pose a problem if the correlation value in the correlation matrix constituting all independent variables is higher than 0.80. In both models, the dependent variable, foreign share ownership, had a significantly correlation with independent variables.

As for Model 1, Table 5.6 of the Pearson correlation matrix shows the dependent, independent and control variables in a correlation matrix and the highest correlation between variables is between board characteristics, audit characteristics. For example, there is significant correlation between board independence and AC independence, and between board financial expertise and AC expertise because the AC is a sub-committee of the BOD, and some of the independent and financial experts on the BOD are appointed as AC members.

Additionally, the highest correlation (0.778) was between BODIND and ACIND, which indicates that independent directors on the board are appointed on the AC. Table 5.6 also shows that a high correlation of 0.626 was found between BODIND and BODEXPER, indicating that the independent members in the BOD have financial expertise. A high correlation between BODSIZE and ACSIZE of 0.339 was because the AC is a sub-committee of the BOD, which means that firms with big-sized boards also have big-sized ACs. A high correlation of 0.480 was found between BDMEET and ACMEET, indicating that an increase in the frequency of board meetings leads to an increase in AC meetings. A high correlation of 0.618 was found between BODIND and ACEXPER, indicating that the independent members in the BOD that have financial expertise are appointed on the AC. A high correlation of 0.378 and 0.384 was found between BODIND, BODEXPER and BIG4 respectively, indicating that the independent members who have financial expertise in the BOD prefer to appoint an external auditor for company from the big four audit firms.

In addition, Table 5.6 also shows that a high correlation of 0.587 was found between ACIND and ACEXPER, indicating that the independent members in the AC have

financial expertise. A high correlation between BODEXPER and ACEXPER at 0.747 indicating that the board members with financial expertise are appointed on the AC. A high correlation of 0.460 and 0.343 was found between ACIND and BIG4 respectively, indicating that the independent members who have financial expertise in the AC mostly appointed one of the big four audit firms as an external auditor for the company. Moreover, a high correlation between ENADOP and BODIND, BODEXPER, ACIND and ACEXPER at 0.546, 0.488, 0.495 and 0.443 respectively indicated that companies that have independent board members with financial expertise as well as an audit committee provided their annual reports in the English language. A high correlation of 0.497 was revealed between FSIZE and BIG4 evidencing that big-sized firms have high audit quality because they have been audited by Big 4 audit firms, as well as in model 2.

Regarding Model 2, Table 5.7 shows the Pearson correlation matrix of Model 2 for the dependent, independent and control variables. The highest correlation between variables was between the effectiveness of the BOD and the effectiveness of AC at 0. 650. In addition, a high correlation between INSTITUT and BDSCORE at 0.379, ACSCORE at 0.266 and BIG4 at 0.210 indicated that local instructional investors prefer to invest in companies that have an effective board as well as an audit committee, and companies that have high audit quality. A high correlation between ENADOP and BDSCORE, ACSCORE and BIG4 at 0.478, 0.432 and 0.470 respectively indicated an effective BOD, an AC of companies that was audited by a Big 4 audit firm, and an annual report in the English language. However, the correlation among all the study variables was not more than 0.80. Thus, Tables 5.6 and 5.7 indicate that no multicollinearity problem existed.

Table 5.6

Correlations Matrix of Study Variables (Model 1)

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1 FSO	1																			
2 BODSIZE	0.047	1																		
3 BODIND	.664**	-0.025	1																	
4 BODMEE	.134**	0.056	.146**	1																
5 BODEXPER	.644**	0.030	.626**	.213**	1															
6 ACSIZE	0.051	.339**	.081*	.141**	0.059	1														
7 ACIND	.646**	0.033	.778**	.167**	.602**	0.025	1													
8 ACMEET	.117**	.110**	.133**	.480**	.177**	.144**	.112**	1												
9 ACEXPER	.668**	0.060	.618**	.157**	.747**	.108**	.587**	.113**	1											
10 BIG4	.370**	.169**	.378**	.167**	.384**	.071*	.460**	.134**	.343**	1										
11FAMOWN	-0.069	0.025	-.104**	-.095**	-.073*	-0.004	-.099**	-0.066	-0.060	-.122**	1									
12INSTITUT	.225**	.105**	.222**	.240**	.296**	0.015	.313**	.086*	.244**	.210**	-0.059	1								
13 TQ	0.004	0.003	-0.042	-.076*	-0.053	-0.020	-0.066	0.009	-0.021	-.107**	-0.042	-.197**	1							
14 ENADOP	.470**	0.046	.546**	.074*	.488**	.111**	.495**	.117**	.443**	.470**	0.037	0.041	-0.046	1						
15 FMSIZE	.107**	.202**	.090*	.125**	.127**	.133**	.124**	.112**	.139**	.497**	-.140**	0.033	.150**	.317**	1					
16 LEV	.072*	.104**	.219**	0.045	.115**	0.046	.149**	0.028	.188**	.145**	.105**	-0.027	-.177**	.228**	.133**	1				
17 PR	-.114**	.184**	-.285**	0.049	-.109**	0.062	-.167**	-0.022	-0.057	0.050	-0.052	.195**	.086*	-.255**	.389**	-.152**	1			
18 ERR	-0.038	0.070	0.002	0.036	-0.047	0.010	-0.016	.099**	-0.027	-0.014	-0.016	-.137**	.217**	0.009	.110**	-0.046	.079*	1		
19 IR	-0.060	.103**	-.115**	0.055	-0.028	-0.020	-0.063	0.040	-0.028	0.031	-0.039	.111**	.117**	-.159**	.194**	-0.030	.210**	##	1	
20 GDP	0.049	-.093**	0.030	-.088*	0.028	0.033	0.021	-.086*	-0.008	-0.009	0.033	-0.034	-.156**	.086*	-.156**	0.061	-.224**	-.522**	-.197**	1

Note: *. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed).

Table 5.7
Correlations Matrix of Study Variables (Model 2)

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 FSO	1													
2 BDSCORE	.550**	1												
3 ACSCORE	.513**	.650**	1											
4 BIG4	.370**	.438**	.369**	1										
5 FAMOWN	-0.069	-.091*	-.079*	-.122**	1									
6 INSTITUT	.225**	.379**	.266**	.210**	-0.059	1								
7 TQ	0.004	-.100**	-0.020	-.107**	-0.042	-.197**	1							
8 ENADOP	.470**	.478**	.432**	.470**	0.037	0.041	-0.046	1						
9 FIRMSIZE	.107**	.244**	.178**	.497**	-.140**	0.033	.150**	.317**	1					
10 LEV	.072*	.196**	.169**	.145**	.105**	-0.027	-.177**	.228**	.133**	1				
11 PR	-.114**	-0.057	-.079*	0.050	-0.052	.195**	.086*	-.255**	.389**	-.152**	1			
12 ERR	-0.038	-0.010	0.031	-0.014	-0.016	-.137**	.217**	0.009	.110**	-0.046	.079*	1		
13 IR	-0.060	0.025	-0.016	0.031	-0.039	.111**	.117**	-.159**	.194**	-0.030	.210**	0.035	1	
14 GDP	0.049	-0.027	-0.012	-0.009	0.033	-0.034	-.156**	.086*	-.156**	0.061	-.224**	-.522**	-.197**	1

Note: **. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).

Further, it is argued that the correlation matrix is not sufficient in itself to detect multicollinearity and it is important to perform the variance inflation factor (VIF) test to ensure no collinearity between variables (Hamilton, 2012). VIF is an indicator of the influence of the estimated coefficient because of collinearity. The rule of thumb states that a VIF value that is more than 10 would have a multicollinearity problem (Hair et al., 2010). As can be seen from Table 5.8, none of the VIF scores was more than 10, which indicates no evidence of a multicollinearity problem.

Table 5.8
VIF and Tolerance Statistic for Multicollinearity Assumption

Model 1			**Model 2**		
Variable	VIF	1/VIF	Variable	VIF	1/VIF
BDINDR	3.38	0.296	BDSCORE	2.2	0.454
ACIND	3.03	0.330	FIRMSIZE	2.03	0.492
BDEXPERT	2.79	0.358	ENADOP	1.91	0.524
ACEXPERT	2.61	0.383	ACSCORE	1.84	0.544
ENADOP	2.1	0.476	BIG4	1.76	0.568
FIRMSIZE	2.1	0.477	PR2	1.61	0.619
BIG4	1.88	0.531	GDP	1.5	0.665
PR	1.73	0.578	ERR	1.47	0.682
GDP	1.52	0.658	INSTITUT	1.4	0.714
ERR	1.48	0.677	TQ	1.2	0.834
BDMEE	1.42	0.702	LEV	1.17	0.857
INSTITUT	1.41	0.708	IR	1.15	0.866
ACMEET	1.36	0.737	FAMOWN	1.07	0.935
BDSIZE	1.25	0.800			
TQ	1.21	0.825			
ACSIZE	1.21	0.827			
LEV	1.21	0.827			
IR	1.16	0.860			
FAMOWN	1.09	0.917			
Mean VIF	1.79		Mean VIF	1.56	

5.5.4 Test of Heteroskedasticity

The current study applied the Breusch-Pagan/Cook-Weisberg Test for heteroskedasticity. The output of the test confirmed the presence of heteroskedasticity

in models that needed to be corrected. Therefore, if autocorrelation is not present, heteroskedasticity can be individually corrected using robust regressions.

5.5.5 Autocorrelation

The Wooldridge test for autocorrelation is the appropriate test to detect autocorrelation in fixed and random-effect models in panel data. The Wooldridge test was applied to this study's models. The test confirmed the presence of autocorrelation in models of this study. The problem of autocorrelation has to be corrected to achieve accurate results.

The diagnostic tests confirmed the presence of heteroskedasticity and autocorrelation in the models of this study. Therefore, this study corrected these two issues by using clustered robust based on Hoechle (2007), which solve heteroskedasticity and autocorrelation.

5.6 Regression Analysis and Discussion of the Findings

5.6.1 Results of Model One

Table 5.9 summarizes the results of the relationship of the independent and control variables with foreign share ownership. The panel regression model was analysed with fixed-effects regression with Clustered Robust's standard errors to control for heteroskedasticity and autocorrelation. Models show a significance level of 1% (Prob > F = 0.0000, F-value = 8.45, R^2 = 0.60 and Adjusted R^2 = 0. 59). The results of R^2 are not much different from the previous study. For example in the United States, Miletkov et al. (2014) found 0.61 and in Vietnam this explanatory power is better than Jiang and Kim (2004), who report an Adjusted R^2 of 45.7%.

Table 1.9
Results of Models Using Fixed-Effects with Clustered Robust (Model 1)

Independent Variables	Predicted signs	Coef	T-Statistics	P-Values
BODSIZE	+	0.00219*	1.74	0.084
BODIND	+	0.0565***	3.62	0.000
BODMEE	+	-0.00016	-0.22	0.823
BODEXPERT	+	0.0135*	1.7	0.09
ACSIZE	+	0.00273	0.83	0.409
ACIND	+	0.0282***	2.76	0.006
ACMEET	+	0.000962	0.75	0.453
ACEXPERT	+	0.0194***	2.83	0.005
BIG4	+	-0.00542	-0.71	0.478
FAMOWN	-	-0.134***	-2.84	0.005
INSTITUT	+	0.0941**	2.22	0.027
TQ	+	0.00406*	1.72	0.087
ENADOP	+	0.0103**	2.01	0.046
FMSIZE	+/-	0.0146*	1.67	0.096
LEV	+/-	-0.000456***	-2.83	0.005
PR	+/-	-0.00146*	-1.82	0.070
ERR	+/-	-16.92*	-1.83	0.069
IR	+/-	-1.4E-05	-0.72	0.475
GDP	+/-	0.000661	1.47	0.144
Constant	+/-	-0.0902	-0.87	0.388
Observations		768		
Number of id		192		
R-squared		0.60		
Adj R-squared		0. 59		
Prob > F		0.0000		

Notes: FSO = Foreign Share Ownership; BDSIZE = Board Size; BDIND = Board Independence; BDMEE = Board Meeting; BDEXPERT = Board Financial Expertise; ACSIZE = Audit Committee Size; ACIND = Audit Committee Independent; ACMEET = Audit Committee meeting; ACEXPERT = Audit Committee Financial Expertise; BIG4 = Audit Quality; TQ = (Tobin's Q) ratio; proxy for market measurement of firm performance; FAMOWN = Family Ownership; INSTITUT = Local Institutional Investors; ENADOPT = provide financial reporting in the English language; FMSIZE = Firm Size; LEV= Leverage; PR = Political risks; EER= Exchange Rate Risks; IR= Inflation risks; GDP = Gross Domestic Product. Robust standard errors in parentheses. *** p<0.01, ** p<0.05, and * p<0.1

5.6.1.1 Board Size

The results in Table 5.9 show that board size was positively related to FSO at the 10% significance level (t= 1.74, p <0.084) in Model 1. This result supports H_1. A reason for the positive relationship between board size and FSO could be that firms with large boards would be more competent owing to the integration of different expertise, skills and knowledge into discussions during board meetings, which result in a better

monitoring mechanism of management, better performance and increase the confidence of foreign investors.

This result is consistent with the findings of Akhtaruddin et al. (2009), Beasley (1996), Hsu and Petchsakulwong (2010), and Yusof and Naimi (2010) who argued that a large board size would be a better monitoring entity as the number of directors is greater and their expertise would enable optimum board performance. This would lead to enhanced board effectiveness in monitoring financial statement fraud by management, reducing agency costs, and creating better financial outcomes, all of which investors consider when they decide to invest. This result in not consistent with previous studies of Mangena and Tauringana (2007), Miletkov et al. (2014) and Suwaidan et al. (2013) who reported an insignificant relationship between board size and FSO.

This finding also provides support for the argument of the agency theory, which posited that a large-sized board would play a key monitoring role as a separation is present between ownership and control within the company ensuring the protection of foreign investors from the expropriation of managers (Jensen & Meckling, 1976).

5.6.1.2 Board Independence

Table 5.9 shows that the relationship between the percentage of independent directors on the board (BDIND) and FSO was positively related at 1% significance level ($t= 3.62$, $p < 0.000$) Hence, the result supports H_2, which predicted that an increase in the proportion of independent directors would be positively related to foreign share ownership.

The result suggests that foreign investors consider the independence of the BOD before they decide to invest in firms and that foreign investors will invest in firms in which their interests will be protected. Firms with independent boards are attractive to foreign investors because an independent board minimizes opportunistic behaviour and information asymmetry and protects foreign investors' interests.

Mangena and Tauringana (2007), Min and Bowman (2015), Miletkov et al. (2014), and Min and Bowman (2015) reported a similar finding, and the result in this current study substantiates the arguments of agency theory. Agency theory posits that a board with a more independent directors may assist in decreasing agency problems through their monitoring and controlling of the opportunistic behaviour of management, therefore, protecting foreign investors as minority shareholders from the exploitation of managers (Jensen & Meckling, 1976).

5.6.1.3 Board Meetings

In Table 5.9, the findings of this study show that the frequency of the BOD meetings (BDMEET) was not significantly related with FSO ($t = -0.22$, $p < 0.823$). Thus, this outcome does not support hypothesis H_3. The coefficient was negative and not as predicted of this hypothesis.

These results imply that the frequency of meetings of the BOD is not vital to the decision making of the foreign investors. This result is inconsistent with much of the literature, which implies that the frequency of board meetings is one determinant of the effectiveness of the BOD (Ebrahim, 2007; Hsu & Petchsakulwong, 2010). The reasonable justification of the insignificant relationship between board meeting and

FSO is that the frequency of board meetings increases when problems arise (Jensen, 1993). Therefore, foreign investors avoid companies that have a high frequency of board meetings. In this context, Jackling and Johl (2009) contended that increased board meetings were a reaction to poor performance, which was, in turn, was linked to enhanced operating performance in the future.

5.6.1.4 Board Financial Expertise

The results in Table 5.9 indicate that board financial expertise (BDEXPERT) was significantly related to FSO at 10% ($t = 1.7$, $p > 0.09$). The result supports hypothesis H_4, and the coefficient of this hypotheses was positive as predicted.

Based on this result, the positive association of FSO and the financial expertise of BOD indicates that financial expertise is a significant determinant of financial reporting quality and can increase the confidence of foreign investors. In the other words, a board with financial expertise can prevent the fraud of financial statement and information asymmetry, which, in turn, protects foreign investors from losing their capital.

The result supports the agency theory that suggests that high board financial expertise is important for enhancing board monitoring as this expertise leads to high-quality financial reporting (Jensen & Meckling, 1976; Pfeffer & Salancik 2003). The result of this current study is consistent Lanfranconi and Robertson (2002) who explained that the business scandals of Enron and WorldCom were due to the lack knowledge of board members. In particular, in the case of Enron, the board members were not knowledgeable of the complex financial planning structures employed for special purpose entities, while in WorldCom, the members of the board were unaware of the

fundamental accounting principles and that the expenditures were being capitalized rather than expensed (Lanfranconi & Robertson, 2002). This result supports the argument of agency theory, and Jensen and Meckling (1976) said that the financial expertise of the directors is important for ensuring that the board effectively monitors the management.

5.6.1.5 Audit Committee Size

Table 5.9 shows that the relationship between AC size (ACSIZE) and FSO was not significant ($t = 0.83$, $p > 0.409$). Thus, the result does not support hypothesis H_6, although the coefficient was positive as predicted. This result does not support the argument of the agency theory that a large size of AC significantly enhances financial reporting quality and minimizes the asymmetry of information. Thus, H_6 is rejected.

A rational justification of this insignificant result of the AC size is that, in developing countries like those of the GCC in which the capital markets are still developing and the external corporate governance mechanisms are weak, foreign investors consider an independent AC to be more significant relative to AC size. In this situation, the AC may play an effective role in enabling auditors to form independent judgments without management pressure (Kusnadi et al. 2016). In the other words, if the AC members are not independent, then they will be loyal to management, whatever the size of AC is.

This result is consistent Madawaki and Amran (2017) who found that AC size has an insignificant influence on the quality of financial reporting and similar results of Mangena and Tauringana (2007) who did not find a significant relationship between

the size of AC and foreign share ownership. Therefore, AC size is not important in the decision-making processes of foreign investors.

5.6.1.6 Audit Committee Independence

Table 5.9 reveals the percentage of AC independence (ACIND) was positively significant to FSO at 1% ($t = 2.76$, $p > 0.006$). Thus, the result supports hypothesis H_7. The positive linkage of FSO with AC independence suggests that foreign investors believe that an independent AC cannot be influenced by management and thus the AC possibly ensures that foreign investors are provided with credible financial reporting.

This finding is in alignment with previous empirical evidence by Karamanou and Vafeas (2005), Mangena and Pike (2005) and Mangena and Tauringana (2007) who found a significant relationship between audit committee independence and FSO. This result indicates that independent audit committee provide high quality of financial reports which, in turn, protect foreign investors. This significant result of AC independence supports agency theory, which argues that an independent AC provides the opportunity to reach correct decisions without any restrictions and to detect errors and fraud in financial reporting that eventually improve the quality of financial reporting for foreign investors (Kusnadi et al. 2016; Mangena & Pike, 2005).

5.6.1.7 Audit Committee Meetings

The relationship between the AC meetings of and FSO is shown in Table 5.9 ($t = 0.75$, $P > 0.453$). This shows an insignificant relationship, although the coefficient is positive as predicted. Thus, the result does not support hypothesis H_8.

AC meetings are important to solve the problems that may be faced during the life cycle of operations, which leads to improved financial performance and to increased confidence of investors that they are being provided with credible financial reporting.

A reasonable justification of the insignificant relationship between AC meeting and FSO may be reached through two points. First, the frequency meeting of AC does not always improve firm performance (Rebeiz & Salame, 2006). Second, foreign investors avoid investing in companies that face financial distress (Lanfranconi & Robertson, 2002; Mangena & Pike, 2005), while the frequency of AC meetings may be maximised during periods of financial distress or when controversial decisions involving, illegal or questionable activities are made (Al-Matari et al., 2012; Kyereboah-Coleman, 2008).

5.6.1.8 Audit Committee Expertise

Table 5.9 shows that the relationship between the AC expertise and FSO was positively related at 1% significance level ($t = 2.83$, $p > 0.005$). Thus, the result supports hypothesis H_9. The positive relationship between AC expertise and FSO shows that an AC with financial expertise is capable of protecting the interests of investors and minimizing the possibility of fraudulent by providing quality and credible financial information (Abbott *et al.,* 2000).

This result is in alignment with the previous studies such as Abbott et al. (2000) who revealed a negative association between the financial expertise of AC and fraudulent financial statements. Therefore, this result indicates that an AC that has members with financial expertise provide high-quality financial reporting, which, in turn, protects the interest of foreign investors. The result of this study also consistent with the study of

Agrawal and Chadha (2005) who stated that members that have financial expertise in the AC increase the confidence of foreign investors. This result supports the argument of agency theory, Jensen and Meckling (1976) stated that the financial expertise of the directors in audit committee is invaluable to provide high financial reporting quality to foreign investors.

5.6.1.9 Audit Quality

Table 4.9 shows an insignificant relationship between audit quality (BIG4) and FSO ($t = -0.71$, $p<0.478$). The result does not support hypothesis H_{11}. A possible justification of this result is that investors have less trust in the quality of audit reports in the GCC, particularly after the five failures of audit in the region, three in Bahrain, and two in Oman and due to the lack of quality audit reports. The Big 4 was involved as audit firms in the two of the failed cases (Al-Shammari et al., 2008; Asiri, 2008).

One rationale for this is that foreign investors avoid investing in companies with weak implementation of accounting standard and auditing rules. According to Al-Shammari et al. (2008), the governments of GCC are intervening heavily in legal financial arrangements. Consequently, GCC countries remarkably are deficient in equity among investors, taking into consideration the dominance of three groups of shareholders, namely, family, government and institutions. The dominance may be due to lack of well-developed markets that will help to promote corporate control and as well weakness in investor protection (Chahine & Tohmé, 2009). Another possible justification is that the current study used Big4 audit firms for the measurement of audit quality, audit quality could be measured by audit fees (Choi, Kim & Zang, 2010).

5.6.1.10 Family Ownership

Table 5.9 shows that the relationship between the percentage of family ownership in company and FSO was negative and significant at the 1% level (t= -2.84, p < 0.005). Hence, the result supports H_{12}. This result indicates that companies with a high concentration of family ownership are not more attracted to foreign investors compared to their counterparts that are not family owned.

This result supports agency theory. Jensen and Meckling (1976) stated that agency issues are more likely to arise between family shareholders and their minority shareholders; therefore, foreign investors avoid investing in family companies. The result is consistent with the empirical evidence of Doidge et al. (2007) and Leuz et al. (2010) and Miletkov et al. (2014) who found that U.S. investors possessed fewer shares in foreign companies in which considerable share blocks were in the hands of managers and families. In other words, this result indicates that foreign investors avoid investments in family companies, specially, companies with boards controlled by family members in which the protection of investors is low and unsatisfactory, as it is challenging to discern the separation of administration from owners (Yeh & Woidtke, 2005).

5.6.1.11 Local Institutional Ownership

In Table 5.9, the association between the percentage of local Institutional ownership and FSO had significant coefficient with a positive relationship at the 5% (t = 2.84, P > 0.027) significance level. This result supports hypothesis H_{13}.

This result supports the argument of previous studies (e.g., Lins, 2003; Mitton, 2002; Shleifer & Vishny, 1997). Also, this result is consistent with Mangena and Tauringana (2007) who found a positive relationship between institutional ownership and foreign share ownership.

This result may be interpreted in two ways. First, foreign investors are attracted to firms in which a greater proportion of shares are possessed by institutional investors, who have a greater ability to supervise managers. Second, foreign investors may be attracted to the firms whose shares can be easily traded. Institutional investors perform a crucial role in curtailing the unscrupulous behavior of management (Chung & Wang, 2014). Institutional investors are able to notice the unscrupulous behavior of management because they have the financial knowledge required to interpret the information disclosed in the annual reports which, in turn, increases the confidence of foreign investors (Bos & Donker, 2004; Lins, 2003; Mitton, 2002).

5.6.1.12 Performance (Tobin`s Q)

The result in Table 5.9 shows a significant relationship between firm performance and FSO at 10% ($t = 1.72$, $p<0.087$). The result supports hypothesis H_{14}, and the coefficient was positive as predicted. This result supports the argument that capital gain is one principal aim of investors (Appuhami, 2007).

This result is similar to Dahlquist and Robertsson (2001), Haldar and Rao (2012) Miletkov et al. (2014), Mangena and Tauringana (2007) and Kim et al. (2010) who found a positive and significant relationship between firm performance and foreign ownership. This result supports the argument that high performing firms may also

maintain their positive relationships with bankers and investors who are looking for capital gains (Spicer, 1978). This result is aligned with signalling theory, and the actual information about the performance of a firm is a sure sign to investors as it directly influences the return on investments (Eun et al., 2012; Connelly et al., 2011; Spence, 1973).

5.6.1.13 Adoption of the English Language in External Financial Reporting

Table 5.9 demonstrates that adoption of the English language in external financial reports was positive and significant with FSO at the 5% level ($t = 2.01$, $P > 0.041$). This result supports hypothesis H_{15}. This result indicates that adopting English in external annual reporting is an important determinant for attracting foreign share ownership.

This result supports the arguments of signalling theory and previous studies (Ferreira & Matos, 2008; Grinblatt & Keloharju, 2001a; Jeanjean et al., 2014) who contended that the language used in an annual report can restrict the information-processing ability of investors and serve as a constraint on foreign investment. Thus, adopting English as a language for the purposes of external reporting is a good strategy for firms in non-English-speaking countries to decrease information restrictions and to further improve the accessibility of a firm's financial reporting for foreign investors and analysts. Jeanjean et al. (2014) reported a similar result, finding that foreign investors were attracted more to companies that provide their financial statements in the English language.

5.6.1.14 Control Variables

In relation to the control variables, Table 5.9 shows that firm size (FSIZE) had a positive and significant association with FSO at 10% level (t = 1.67, P > 0.096). This result indicates that foreign investors prefer to invest in large companies. This finding is consistent with previous literature such as Mangena and Tauringana (2007) and Miletkov et al. (2014) who found a positive association between firm size and FSO.

Table 5.9 shows the significant negative association between leverage of firm and FSO at 1% (t = -2.83, P > 0.005). The result indicates that the perception was that foreign investors restrain from domestic companies that have greater amounts of leverage or decrease their investment in this type of company. Maybe, the compounded issue of information asymmetry that leverage would bring about dampens the interest of foreign investors from investing in highly leveraged domestic companies. In addition, the riskiness of domestic firms that are exceedingly leveraged to foreign investors is higher (Bokpin & Isshaq, 2009). This outcome is in line with existing studies (Bokpin & Isshaq, 2009; Miletkov et al., 2014).

As for political risks, Table 5.9 shows a negative significant association between political risks and FSO at the 10% significance level (t = -2.23, P > 0.070). The finding of this study is similar to Al-Jaifi et al. (2016) and Al Khattab *et al*. (2007). Other studies by Luiz and Charalambous (2009) and Bitzenis et al. (2009) also found that political risk is the most important risk factor and a significant barrier for foreign investors.

In terms of the relationship between exchange rate risk, Table 5.9 shows a significant and negative association between exchange rate and FSO at the 10% level (t = -1.83, P > 0.069). This result show importance of currency risk to foreign investors. This result indicates that foreign investors avoid countries with exchange rate uncertainty where instability in the exchange rate decreases the benefits of FSO. This finding is similar to the Waqas et al. (2015) who found a negative relationship between risks of exchange rate and foreign share ownership.

Regarding to inflation risks, Table 5.9 shows an insignificant and negative relationship between inflation risks and FSO with t-value (t = -0.72, P > 0.475). This result is similar to Busse and Hefeker (2007) and Waqas et al. (2015) who did not find a significant effect between inflation and foreign investment. With respect to economic growth (GDP), Table 5.8 shows an insignificant and positive association between GDP and FSO (t = 1.47, P > 0.144). This result indicates that economic growth does not affect foreign share ownership. This finding is similar to Waqas et al. (2015) who did not find a significant effect between economic growth and foreign portfolio investment.

5.6.2 Results of Model Two

The results of Hausman test statistics in Table 5.10 show that the p-value was statistically significant at 1% level (Prob>chi2 = 0.0000) for this model, which means that fixed-effects model should be used. In this section the analysis of the relationship between independent variables; namely, BOD' effectiveness (score or bundle of board size, board independence, board meetings, board financial expertise), and AC effectiveness (score or bundle of AC size, AC independence, AC meetings, financial expertise of AC); audit quality; firm performance (Tobin's Q); family ownership; local

institutional investors and the adoption of English language and FSO as the dependent variable are examined to test if there is an aggregated effect of these characteristics on foreign share ownership. In addition, this present study uses firm size, leverage, political risks, exchange rate risks, inflation risks and economic growth (GDP) as control variables in this model. Table 5.10 shows the results of the direct relationship of the independent and control variables with foreign share ownership. The panel regression model was estimated using fixed-effects regression with Clustered Robust's standard errors to control for heteroskedasticity and autocorrelation.

Table 5.10
Results of Models Using Fixed-Effects with Clustered Robust (Model 2)

Variable	**Predicted signs**	**Coef**	**T-Statistics**	**P-Values**
BODSCORE	+	0.00591***	3.29	0.001
ACSCORE	+	0.00555**	2.06	0.041
BIG4	+	-0.00389	-0.5	0.615
FAMOWN	-	-0.211***	-4.37	0.000
INSTITUT	+	0.105**	2.29	0.023
TQ	+	0.00558**	2.18	0.030
ENADOP	+	0.0177***	3.32	0.001
FMSIZE	+/-	0.0198*	1.75	0.082
LEV	+/-	-0.000617***	-3.23	0.001
PR	+/-	-0.00141	-1.65	0.101
ERR	+/-	-18.95*	-1.84	0.068
IR	+/-	-1.66E-05	-0.87	0.388
GDP	+/-	0.000284	0.61	0.544
Constant	+/-	-0.0648	-0.54	0.591
Observations		768		
Number of id		192		
R-squared		0.45		
Adj R-squared		0.44		
Prob > F		0.0000		

Notes: FSO_{it} = Foreign Share Ownership; BODSCORE = composite measurement of board characteristics; ACSCORE = composite measurement of Audit Committee characteristics; BIG4 = Audit Quality; TQ = (Tobin's Q) ratio; proxy for market measurement of firm performance; FAMOWN = Family Ownership; INSTITUT = Local Institutional Investors; ENADOPT = provide financial reporting in English language; FMSIZE = Firm Size; LEV= Leverage; PR = Political risks; EER= Exchange Rate Risks; IR= Inflation risks; GDP = Gross Domestic Product. Robust standard errors in parentheses. *** p<0.01, ** p<0.05, and * p<0.1.

This model is significant and fit at the 1% level (Prob > F = 0.0000, F-value = 9.66, R^2 = 0.45 and Adjusted R^2 = 0.44). This explanatory power is similar to Jiang and Kim (2004), who reported an Adjusted R^2 of 45.7%.

5.6.2.1 Board of Director's Effectiveness (BODSCORE)

Table 5.10 reveals that the coefficient of BOD' effectiveness (BDSCORE) has a strong and positive relationship with FSO at the 1% significance level (t = 3.29, P > 0.001). Thus, this result supports hypothesis H_5. This finding indicates that the BOD effectiveness is a significant determining factor of the level of FSO in the GCC countries. That is implies that FSO is greater in companies with an active and effective board. The results signify that improving the effectiveness of the BOD is an active method for enticing foreign investors. Therefore, board effectiveness should be measured by its whole characteristics not only by its individual characteristics.

The finding substantiates the position of agency theory, which confirms the board as an important supervising component of the management as well as protecting shareholders form managers (Jensen & Meckling, 1976). Moreover, the finding substantiates the argument of Fama and Jensen (1983) who reported that boards help in improving financial reporting in light of their integrity in overseeing management, all of which ensure that foreign investors are protected from management exploitation. The result is consistent with the prior literature like Chobpichien et al. (2008), Johl et al. (2013) and Ward et al. (2009) who stated that BOD effectiveness was considered optimal in mitigating agency cost and in safeguarding the interests of shareholders.

5.6.2.2 Audit Committee Effectiveness (ACSCORE)

For AC effectiveness (ACSCORE), Table 5.10 shows the coefficient was positive related to FSO at the 5% significance level ($t = 2.06$, $P > 0.041$). Thus, the result supports hypothesis H_{10}, which indicates that strength of an AC attracts more foreign investors a company. The results submit that foreign investors prefer companies with an active AC because their investments would be safer. The outcome substantiates the agency theory about the effectiveness of an AC in defending investors' interest.

This result supports the argument of the agency theory, Cadbury Committee (1992) and Eyenubo et al. (2017) who reported that an effective AC would be a crucial governance measure that would defend the interests of foreign investors and guarantee transparent reporting and enhance audit quality. Moreover, Menon and William (1994) stated that the AC remains the measure through which the BOD can reduce conflicting interests that may arise between managers and foreign investors.

The finding is also consistent with Salleh and Haat (2014) who said that an effective AC comprises qualified committee members who possess the authority and capability to protect the foreign investors by ensuring accurate financial statements and creating a smooth flow of information between management and foreign investors and ensuring disclosure, transparent, reliable and informative reporting for foreign investors. Other studies in the literature like Rouf (2012) and Kyereboah-Coleman (2008) went so far as to describe the AC as the most reliable component used to defend the interests of investors.

In terms of the relationship between audits quality (BIG4) and FSO is similar to Model 1. Table 5.10 shows no change in the relationship between BIG4 and foreign share ownership. Regarding ownership structure, the relationship between family ownership (FAMOWN) local institutional ownership and FSO still significant at the same level of model 1, Table 5.10 shows no changed.

In terms of firm performance, the relationship between firm performance (TQ) and FSO changed from a positive and significant at the 10% level (t= 1.72, p < 0.087) in Model 1 to positive and significant at the 5% level (t= 2.18, p < 0.030) in Model 2.

With respect to the relationship between the adoption of the English language in an external financial report and FSO changed from positive and significant at the 5% level (t = 2.01, P > 0.046) in Model 1 to positive and significant at the 1% level (t = 3.32, P > 0.001) in Model 2.

With respect to the control variables, the results of controls variables are similar to the results of Model 1, Table 4.10 shows no change in the results of control variables with FSO, except political risks. The relationship between political risks (PR) and FSO changed from a negative and significant at the 10% level (t= -1.82, p < 0.070) in Model 1 to negative and insignificant at (t= -1.65, p < 0.101) in Model 2.

5.6.3 Additional Analysis

This section displays additional analysis conducted for model 1 and model 2 to investigate the robustness of the regression model. To improve the reliability and validity of the findings, this study included 768 non-financial companies in the main

analysis even the firms without FSO involvement. Therefore, this additional analysis focused on firm that involved in FSO with 568 firm-observations only, during the four years from 2012 to 2015.

5.6.3.1 Analysis for all Firms that involved FSO.

As mentioned before, this study in the main analysis included 768 non-financial firm even the firms without FSO involvement, during the sample period of the study to test the hypotheses to achieve its objectives. Therefore, to test the robustness of the main analysis's findings, the analysis uses only companies that involved FSO. This section includes 568 firm-observations that involved FSO, and the diagnostic tests are re-examined to confirm that the assumptions of multiple regressions hold correctly. The study used the Breusch and Pagan (1980) Lagrange multiplier (LM) test to inspect the hypothesis that no random effects were present. The study concluded that the random effects model was more appropriate than the classical regression model based on a significant p-value for the (LM) test. Additionally, the Hausman test was employed to determine which panel technique (the Fixed Effect Model or the Random Effect Model) was more appropriate for the observed sample data. Based on this test, the fixed effects regression was employed to examine the sample of all firms that involved FSO and without FSO observations. To deal with heteroscedasticity and serial correlation (autocorrelation) in the panel data set, this study includes time fixed-effects and robust standard errors clustered at the firm level.

As shown in Table 5.11, the model is statistically significant at a p-value of less than 0.01 (Prob > F = 0.0000, R2 = 0.61 and Adj R2 = 0.60). The results of R2 are mostly the same as shown in the main analysis of model one and also not much different from

previous study like Miletkov et al. (2014) in the United States. In terms of model 2, Table 5.10 was significant and fit at the 1% level (Prob > F = 0.0000, R2 = 0.45 and Adj R2 = 0.44). This result is better that shown in the main analysis of model 2 of this study and better than the study by Jiang and Kim (2004), who report an Adjusted R2 at 45.7%.

Contrary to the expectations of this study, Table 5.11 showed that the board characteristics of size, independence, expertise, and BOD effectiveness (BDSCORE) had a significant and positive association with FSO. This result indicates that foreign investors prefer to invest in a company that has strong and active board of directors. This result is consistent with the empirical evidence of previous studies by (Mangena & Tauringana, 2007; Min & Bowman, 2015; Miletkov et al., 2014; Min & Bowman, 2015). Regarding the audit committee, Table 5.11 show that independence, expertise and effectiveness of the audit committee was significantly related to FSO. These results are consistent with the empirical finding of previous studies done by (Agrawal & Chadha, 2005; Mangena & Tauringana, 2007).

In terms of ownership structure, Table 5.11 shows that family ownership was negatively related to FSO. This result consistent with study by (Miletkov et al., 2014). While local institutional ownership had a positive relationship with FSO, which was consistent with the finding of Mangena and Tauringana (2007). Regarding firm performance, Table 5.11 indicated that firm performance (Tobin's Q) had a positive relationship with FSO. This result is consistent with the empirical findings of Miletkov et al. (2014), Mangena and Tauringana (2007) and Kim et al. (2010) who reported that foreign investors are looking for the maximize of their wealth. Table 5.11 also shows a positive and

significant relationship between the adoption of English language for annual reports and FSO. This result is consistent with the empirical evidence by Jeanjean et al. (2014).

Table 5.11
Additional analysis, Results of Models 1 and 2 *Using Fixed-Effects with Clustered Robust*

Independent Variables	**Predicted signs**	Model 1		Model 2	
		Coef	**T-Statistics**	**Coef**	**T-Statistics**
BODSIZE	+	0.00327**	2.01	-	-
BODIND	+	0.0891***	4.05	-	-
BODMEE	+	-0.000287	-0.35	-	-
BODEXPERT	+	0.0142**	2.13	-	-
BODSCORE	+	-	-	0.00790***	3.76
ACSIZE	+	0.00275	0.72	-	-
ACIND	+	0.0194*	1.73	-	-
ACMEET	+	0.000281	0.19	-	-
ACEXPERT	+	0.0129**	2.08	-	-
ACSCORE	+	-	-	-0.00718	1.75
BIG4	+	-0.00445	-0.56	-0.146***	-1.04
FAMOWN	-	-0.0811**	-2.49	0.0618	-3.47
INSTITUT	+	0.0794***	2.72	0.00467*	1.43
TQ	+	0.00306	1.10	0.0187***	1.73
ENADOP	+	0.00787*	1.89	0.0239**	3.83
FMSIZE	+/-	0.0178*	1.86	-0.000832***	2.01
LEV	+/-	-0.000611***	-2.98	0.00187	-3.52
PR	+/-	0.00217**	-2.23	-23.06*	-1.67
ERR	+/-	-23.64**	-2.11	0.0000258	-1.75
IR	+/-	-0.0000277	-1.16	0.000376	-1.04
GDP	+/-	0.000549	0.95	-0.169	0.63
Constant	+/-	-0.175	-0.56	-0.00718	-1.04
Observations		568		568	
Number of id		142		142	
R-squared		0.61		0.45	
Adj R-squared		0.60		0.44	
Prob > F		0.0000		0.0000	

Notes: FSO = Foreign Share Ownership; BDSIZE = Board Size; BDIND = Board Independence; BDMEE = Board Meeting; BDEXPERT = Board Financial Expertise; BODSCORE = composite measurement of board characteristics; ACSIZE = Audit Committee Size; ACIND = Audit Committee Independent; ACMEET = Audit Committee meeting; ACEXPERT = Audit Committee Financial Expertise; ACSCORE = composite measurement of Audit Committee characteristics; BIG4 = Audit Quality; TQ = (Tobin's Q) ratio; proxy for market measurement of firm performance; FAMOWN = Family Ownership; INSTITUT = Local Institutional Investors; ENADOPT = provide financial reporting in the English language; FMSIZE = Firm Size; LEV= Leverage; PR = Political risks; EER= Exchange Rate Risks; IR= Inflation risks; GDP = Gross Domestic Product. Robust standard errors in parentheses. *** p<0.01, ** p<0.05, and * p<0.1

In terms of control variables, Table 5.11 shows that firm size had a positive and significant relationship with FSO. This result is consistent with the finding of Mangena and Tauringana (2007) and Miletkov et al. (2014) who found a positive association between firm size and FSO. Leverage, political risk and exchange rate risk had a negative relationship with FSO, and these results are consistent with Al-Jaifi et al. (2016), Bokpin and Isshaq (2009), Miletkov et al. (2014), and Waqas et al. (2015). For the other control, Table 5.11 shows that the inflation risk and GDP had no significant relationship with FSO. This result is consistent with Waqas et al. (2015) who found an insignificant association between inflation risk and GDP with FSO.

5.7 Chapter Summary

In Chapter Four, the diagnostic tests for normality, outliers, multicollinearity, homoscedasticity and autocorrelation tests are reported. In addition, this chapter finalises the empirical investigation and demonstrates new evidence with regard to the effects of BOD effectiveness (including board size, board independence, board meetings and financial expertise of board members); AC effectiveness (including AC size, AC independence, AC meetings and financial expertise of AC members); audit quality; firm performance; family ownership; local institutional investors and the adoption of English language in external financial reporting are independent variables, also firm size, leverage, political risks exchange rate risks, inflation risks and economic growth (GDP) on foreign share ownership.

The empirical results of this study support the research hypotheses of board size, board independence, board expertise, AC independence, audit expertise, firm performance, family ownership; local institutional investors and the adoption of English language.

As well, some control variables are significantly related to foreign investors, which are firm size, leverage, political risks, exchange rate risks inflation risks and GDP. In addition, this chapter provided additional analysis, the results in the additional analysis are support the results of the main analysis. The final chapter presents an overview, the implications and limitations of this study as well as suggestions for future research.

CHAPTER SIX
SUMMARY AND CONCLUSION

6.0 Introduction

This thesis examines determinants of foreign share ownership in GCC stock markets, with a focus on these countries' unique culture, legal and institutional environments. In particular, this thesis provides a review of the literature, develops testable hypotheses, discusses research methods, and presents empirical findings.

The purpose of this chapter summaries the main empirical findings of Chapter five. It includes a discussion of the implications and the limitations of the study as well as suggestions for future research. **Section 6.1** provides an overview of the study and findings. **Section 6.2** explains the implications of the study. **Section 6.3** discusses research limitations. Finally, **Section 6.4** provides a possible recommendation for further research. **Section 6.5** provides the conclusion of the study.

6.1 Overview of the Study

The objectives of this study were several. First was to examine the relationship between corporate governance mechanism (board characteristics, audit committee characteristics and audit quality) and foreign share ownership. Second was to examine the relationship between ownership structure and foreign share ownership. Third was to examine the relationship between firm performance (Tobin`s Q) and foreign share ownership. Fourth was to examine the relationship between the adoption of the English language to report financial reporting and foreign share ownership. This study focused on non-financial firms that were publicly listed on the stock markets of the selected GCC countries from 2012 to 2015. The overall number of selected firms was 192, with

a total of 768 Firm-years observations (568 firms years with FSO and 200 frims years without FSO).

The study extends previous research by considering the internal factors, namely, the financial expertise of BOD and the financial expertise of AC and effectiveness of BOD and AC that affect FSO. Panel data analysis was applied to achieve the objectives of this study. Panel regressions were estimated using fixed-effects models with clustered robust to control for heteroskedasticity and autocorrelation.

This study has two regression models. In model 1, board size, board independence, board meeting, board expertise, audit committee size, audit committee independence, audit committee meeting, audit committee expertise, audit quality, family ownership, local institutional ownership, firm performance (TQ) and adoption of English language are regressed on FSO. In model 2, Board effectiveness, Audit committee effectiveness, audit quality, family ownership, Local institutional ownership, performance (TQ) and adoption of English language are regressed on FSO. Firm size, leverage, political risks, exchange rate risks, inflation risks and economic growth (GDP) are included in both models as control variables.

The results showed that the relationship of board size, board independence board expertise, AC independence and AC expertise were positively and significantly related with foreign share ownership. This is consistent with agency theory and the previous empirical evidences that examined characteristics of the BOD and AC effectiveness. This current study suggests a BOD with a large number of members, more independent directors with financial expertise, an AC with more independent members and AC with

more financial expertise attracts more foreign investors (Abbott et al., 2000; Jensen & Meckling, 1976; Mangena & Tauringana, 2007; Min & Bowman, 2015; Miletkov et al. 2014; Lanfranconi & Robertson, 2002; Petchsakulwong, 2010).

Drawing on the argument that corporate governance is a bundle of mechanisms that are not isolated from each other, this study hypothesized a positive relationship between composite score of the effectiveness of the BOD and the AC with FSO. The results, as expected, were shown to positively affect foreign share ownership. This study suggests that firms having a high composite score for the effectiveness of the BOD and the AC attract more foreign investors than firms having a low composite score for effectiveness of BOD and AC. Therefore, the outcomes show that the effectiveness of BOD and AC is a vital determining factor of the level of FSO in the GCC countries. This implies that foreign investors are more attracted to companies with an active board of directors and an audit committee (Chobpichien et al., 2008; Johl et al., 2013; Salleh & Haat, 2014)

With regards to ownership structure, this study hypothesized a negative relationship between family ownership and FSO. As expected, family ownership was found to negatively affect foreign share ownership. This indicates that foreign investors avoid companies that exhibit high family's control. While institutional ownership was positively related to FSO as posited in the hypothesis. This result indicates that a foreign investor considers local institutional investors as an external device capable of monitoring management and reducing the opportunistic behaviour of managers or majority shareholders against foreign investors as minority shareholders (Al-Najjar, 2010).

With respect to the adoption of the English language in annual reports (providing an annual report in the English language), this study hypothesised a positive relationship with foreign share ownership. The result found was significant as expected. This is consistent with signal theory and previous evidence such as Jeanjean et al. (2014) who found that foreign investors are more attracted to companies that provide their financial reports in the English language.

However, four variables were found to have no influence on foreign share ownership, such as the frequency of meetings of BOD, AC size, frequency of meetings of AC and audit quality. The insignificant result of the frequency of meetings of the BOD and AC with FSO indicated that foreign investors avoid companies that have high frequency of board and AC meeting. Foreign investors regard increased board meetings as a reaction to poor performance (Jackling & Johl, 2009; Jensen, 1993).

Regarding to the AC size, the insignificant result indicates that foreign investors consider the independent of AC to be more effective in monitoring the quality of financial reporting compare to the AC size. In the other words, if the AC members are not independent, they will be loyal to management irrespective of the size of AC (Kusnadi et al., 2016).

With regard to audit quality (BIG4), the insignificant results indicate that foreign investors avoid investing in companies with weak implementation of accounting standard and auditing rules. This is because investors have less trust in the quality of audit reports in the GCC, especially after the five failures of audit in the region. The

Big 4 was involved in the two of the failed cases of audit firms (Al-Shammari et al., 2008; Asiri, 2008).

The relationship between firm performance and FSO as shown in model 1 was insignificant when Tobin's Q analysis was analysed together with the individually characteristics of BOD and AC. While Model 2 shown a positive and significant relationship between performance and foreign share ownership when Tobin's Q analysis with the whole characteristics as bundle of both BOD and AC was included in the analysis. This result in model 2 indicates that firm performance is an important determinant of foreign share ownership, which in turn, does support hypothesis H_{12}.

A summary of the findings of hypotheses testing is shown in Table 6.1.

Table 6.1
Summary of the Results of Hypotheses Testing

Research Objectives		**Hypothesis**	**Finding**
To examine the relationship between corporate governance mechanism and foreign share ownership.	**H1**	*There is a relationship between board size and foreign share ownership.*	Supported
	H2	*There is a positive relationship between board independence and foreign share ownership.*	Supported
	H3	*There is a positive relationship between the frequency of board meetings and foreign share ownership.*	Not Supported
	H4	*There is a positive relationship between board financial expertise and foreign share ownership.*	Supported
	H5	*There is a significant relationship between the board of directors' effectiveness (score) and foreign share ownership.*	Supported
	H6	*There is a relationship between audit committee size and foreign share ownership.*	Not Supported

Table 6.1 (Continued)

Research Objectives		Hypothesis	Finding
	H7	*There is a positive relationship between audit committee independence and foreign share ownership.*	Supported
	H8	*There is a positive relationship between the frequency of audit committee meetings and foreign share ownership.*	Not Supported
	H9	*There is a positive relationship between audit committee financial expertise and foreign share ownership.*	Supported
	H10	*There is a significant and positive relationship between audit committee effectiveness (score) and foreign share ownership.*	Supported
	H11	*There is a positive relationship between audit quality and foreign share ownership.*	Not Supported
To examine the relationship between ownership structure and foreign share ownership.	**H12**	*There is a negative relationship between family members participate in the boards and foreign share ownership.*	Supported
	H13	*There is a positive relationship between local financial institutional ownership and foreign share ownership.*	Supported
To examine the relationship between firm performance (Tobin`s Q) and foreign share ownership.	**H14**	*There is a positive relationship between performance (Tobin's Q) and foreign share ownership.*	Supported
To examine the relationship between the adoption of the English language to report financial reporting and foreign share ownership.	**H15**	*There is a positive relationship between providing an external financial statement in the English language and foreign share ownership.*	Supported

6.2 Implications of the Study

The current study has theoretical, practical and academic implications that are discussed in the following sub-sections.

6.2.1 Theoretical Implications

The first theoretical implication of this study is enriching the literature by adding to the understanding of agency theory and signal theory in an emerging and/or developing country, wherein companies extensively adhered to the corporate governance code rules and regulations and in which there is majority ownership that has complex agency relationships.

The findings of the current study support the agency theory, in which Jensen and Meckling (1976) provided a main impetus for modern research. The agency theory posits that managers (the agents) have more information concerning firms compared to owners (principals), and that this asymmetric information negatively impacts the principal's ability to successfully monitor whether their interests are effectively served by the agent. The most significant premise behind the theory is that management is often driven by their personal interests rather than the interests of investors and the desire of those investors to increase their wealth.

Moreover, the findings of this study support the signaling theory. The basis of signaling theory focuses on the reduction of information asymmetry between management and foreign investors (Spence, 1973) in which information asymmetry arises owing to the possession of information by some investors concerning the company that other different investors do not possess. One significant issue in this process is the language barrier. The language barrier is a critical for foreign investors because foreign investors often face difficulties in understanding the narrative elements of a financial report composed in a language that they do not understand (Hau, 2001).

Second, this study contributes to the literature in that it is the first study that has been conducted about the determinants of foreign share ownership in GCC listed companies, as the majority of the previous studies concentrated on the relationship between corporate governance and firm performance. Therefore, the future research can build on the findings of this study and identify more factors affect foreign share ownership that are applicable to GCC listed companies. This study focuses on emerging markets, represented by the GCC countries namely, Bahrain, Oman, Qatar, Saudi Arabia, and the United Arabic Emirates during the period 2012 to 2015. These countries have a different environment from the other developing countries, but these GCC countries share similar unique features such as level of economic growth, culture, geographic area.

Third, the current study contributes to the literature in that it is the first study to provide an examination of new variables such as the financial expertise of the BOD and the AC with foreign share ownership. The significant results provide support for the agency theory that the BOD and AC members with knowledge and expertise in accounting can deal with the complex financial planning structures and accomplish their duties and provide financial reporting with high transparency and low information asymmetry to protect foreign investors.

Fourth, the study examines a comprehensive set of corporate governance mechanisms to investigate their impacts on attract foreign investors. Furthermore, a set of corporate governance internal monitoring mechanisms was used both separately (board size, board independence, board meeting, board financial expertise, AC size, AC

independent, AC financial expertise and AC meeting) and aggregately (i.e., a combination of board characteristics and a combination of AC characteristics).

The aggregated analysis shows that individual governance mechanisms need to be joined together to be effective in reducing the agency cost because they work in complement to one another. The size of the board and the size AC should align with a firm's size and the directors' independence can make monitoring more efficient when they have the financial expertise to understand the accounting information in the financial statements that could mislead foreign investors, when meeting are held frequently, when they are independent and have the expertise to affect the decision making during meeting to monitor the behavior of managers and protect foreign investors. The significant results provide evidence that the foreign investors more are attracted to the firms with strong and effective BODs and ACs as exemplified by the aggregation effectiveness scores.

Fifth, the current study extends previous studies by exploring the linkage between family ownership and foreign share ownership. By doing so, this study extends existing FSO literature by examining the effect of family ownership. The negative and significant result indicates that foreign investors avoid companies that have high ownership concentration or are family controlled. This is a special problem for GCC listed companies because 70% of businesses are controlled by a family owner and information asymmetry is high.

Sixth, this study examines the external monitoring of GCC listed companies via local institutional investors. The significant results between local institutional investors and

foreign ownership provide a clear indication that foreign institutional investors are effective in monitoring management and solving agency problems between the management and foreign investors in an environment in which the legal protection of investors is weak.

Seventh, this study extends the previous studies by examining the firm performance by using measurement of Tobin's Q. The positive result support the both signaling theory and indicates that foreign investors aim to maximize their wealth.

Eighth, this study extends previous studies by examining the adoption of the English language in financial reporting. The positive and significant results provide support for the signaling theory and indicated that foreign investors are more attracted to investing in companies that provide their annual reports in the English language.

6.2.2 Practical and Policy Implication

The findings of this study should be of potential interest to policy makers, investors, creditors and researchers, especially concerning issues relating to FSO and corporate governance practices. Therefore, the implications of this study are useful for many users. First, the findings of this study are useful to regulators and policy makers by helping them to determine a mechanism that will protect foreign investors and shareholders from expropriation by management.

The policy makers may employ the results regarding FSO in relationship to governance practices. They should recognize the vital functions performed by an effective BOD and AC as two of the fundamental characteristics of a good corporate governance

system in the GCC because their monitoring activities positively affect foreign ownership in GCC listed companies that family members do not control, and their activities reduce information asymmetry. The results of this study are useful to foreign investors by providing them with an important signal concerning the type of controlling shareholders and their relationships of effectiveness of BOD and AC that will protect their interests. This will increase investors' confidence, especially in an environment in which legal protection and law enforcement is low.

In addition, the results of this study that show that family ownership negatively affects foreign share ownership demonstrates that foreign investors either avoid or invest less in family-controlled companies. Therefore, policy makers should not assume that the board and AC are adequate mechanisms to protect the interests of foreign investors in companies that are controlled by family owners or where the information asymmetry is high. Thus, the policy makers should look to other mechanisms that can be used to protect the interests of shareholders in companies that are controlled by family owners or where the information asymmetry is a high.

In relationship to institutional ownership, the findings indicate a positive contribution of the local institutional ownership in increasing the level of FSO in GCC listed companies. Local institutional ownership was proven to be an incentive mechanism for the managers to work in alignment with the interests of foreign investors.

With respect to the adoption of the English language in annual reports, this study recognized the limitation of information processing in the given language of an annual report and the constraints on foreign investments, particularly when the report is in

Arabic as would be the case in a GCC country. Utilizing English for the purposes of external reporting is a strong strategy for companies in non-English speaking countries to decrease information difficulties, to decrease information asymmetry, and to improve transparency, therefore, increasing the accessibility of the company's financial statements for investors and analysts. The rationale for issuing an annual report in the English language is to attract more foreign investors. Therefore, the findings suggest that policy makers to require that companies should issue an annual report in English in addition to the local-language report to increase foreign investor ownership.

Foreign investors and auditors should learn from the study results that internal governance components in companies with family high ownership are ineffective in supervising management. Therefore, auditors must not be totally confident that the disclosed financial statements were duly supervised by the board and the AC. Further information should be requested for by the auditors to carry out independent audit jobs to ensure that an improved level of transparency accomplished. The findings of this study will help foreign investors to determine under what type of ownership the board and AC will protect their interests. The results of this study provide the investors with a signal that, in circumstances in which information-asymmetry is higher, the BOD did not perform an active role in improving the transparency of the financial statements.

The findings of this study might be useful to corporate governance researchers who emphasize the issues relating to agency conflict between the controlling management and foreign investors. The investigation of corporate governance practices, performance, family ownership, local institutional ownership, the provision of financial statements in the English language and external factors such economic variables and political risks as control variables with FSO is the first study of its kind in GCC

countries. Therefore, corporate governance researchers for Arab countries should give more attention to the issue of foreign ownership in Arabic countries especially for GCC countries.

Several vital implications for corporate decision-makers are inherent in this study, particularly in GCC countries with lower levels of foreign investors' protection. With regard to this, this study recommended that foreign investors should desist from investing in firms that reside in developing countries if they have insufficient corporate governance and are controlled by high ownership concentration. This present study argues that foreign investors preferred companies that possess active corporate governance and where their investments are very well protected.

In accordance with the efforts to enhance corporate governance practices in developing countries, the findings will probably have policy implications. GCC countries as developing countries, must nurture an environment with better performing governance components that would translate into positive effects for the participation of foreign investors in listed firms. Therefore, policy makers should establish rules and guidelines that can encourage and attract more investors to the area. The regulations formulated by the policy makers should defend the rights of foreign investors to improve the assurance of foreign investors of the wisdom of investing.

6.3 Limitations of the Study

This study is similar to any other study in what it contains a number of limitations that should be mentioned. First is the issue of generalization of the results. The results of this study are drawn from non-financial listed firms in the stock markets of GCC

countries. Therefore, the findings of this study might not be relevant to financial sectors because the internal strength of the firm's governance structures is affected by industry.

Second is the period of the study. This study only covered four years from 2012 to 2015, and the samples used in this study included only 192 non-financial listed firms in GCC main markets.

Third, the study only investigated independent variables (family ownership and local institutional ownership) with FSO. Other ownership structures that may affect FSO are omitted including government ownership and managerial ownership as are other macroeconomic factors.

Although the above limitations highlight the scope for improvement in future foreign ownership research, these should not detract the value of this research. As this research followed a rigorous process and achieved its objectives, the usefulness of this research is undeniable. Moreover, these limitations draw attention for improvement in future studies.

6.4 Recommendations for Future Research

This study focuses on examining the relationship between BOD, AC, Big 4 audit firms, performance, family ownership, local institutional ownership and the adoption of English language as independent variables with respect to foreign share ownership. In addition, this study puts together firm size, leverage and external factors (exchange rate risks, inflation risks, GDP and political risks) as control variables.

It is possible that this current study can be extended in future research in several ways, in addition to overcoming its limitations, as follows:

First, future study could be conducted using larger samples and over a longer period of time in different Middle East countries such as Kuwait, Egypt and Jordan to compare the results with the results of this study to provide evidence whether the determinants of FSO in emerging countries differ.

Second, future research may consider the impacts of government ownership and managerial ownership, interest rate and tax on foreign share ownership.

Third, future study may consider more external factors that might affect FSO such as culture, cost of equity and protections law for foreign investors, which may influence foreign share ownership.

Lastly, in relationship to the measurement of firm performance, this study measures firm performance by Tobin's Q. Thus, future research should consider other metrics such as ROE, ROA and sales.

6.5 Conclusion

The study investigates the impact of the board of director's characteristics, AC characteristics, audit quality, family ownership, local institutional investors, firm performance and the adoption of the English language in external financial reporting and foreign share ownership. Furthermore, this study examined the impact of the effectiveness of BOD and AC on foreign share ownership. In addition, this study considered firm size, leverage and external factors such as political risks, inflation risks, exchange rate risks, and economic growth (GDP) as control variables.

This study is the first to report an association that is significant between board financial expertise and the financial expertise of AC and foreign share ownership. This study provides evidence that the board size, board independence, board financial expertise board, AC independent, financial expertise of AC are fundamental determinants of FSO level in non-financial companies in GCC stock markets. However, this study finds no evidence that frequency of board meetings, AC size, and frequency of AC meetings are related to foreign share ownership.

In addition, this is the first study to provide support that the effectiveness of both BOD and AC are fundamental determinants in attracting foreign share ownership into firms which listed in the stock markets of GCC. The results show that the foreign share ownership is significantly related to the effectiveness of BOD and the effectiveness of AC in GCC countries. These results noted that foreign investors prefer firms that have active corporate boards and audit committees and in which their investments will be highly protected and safe. Based on this, it is established in the literature that foreign investors refrain from investing in firms in developing countries because of their weak and inefficient corporate governance mechanism.

This study provides evidence that foreign investors are more attracted to companies that have shares owned by local institutional investors and are not attracted to companies that are family controlled. This study also provides evidence that the provision of English-language reports for external reporting is a good strategy to remove the informational barriers, to reduce information asymmetry and to improve transparency to attract foreign investors.

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APPENDIXES

Appendix A

List of the Non-Financial Listed Companies

N	Company	sector
	The United Arab Emirates	
1	Air Arabia PJSC	Transportation
2	Al Firdous Holdings PJSC	Services
3	Dana Gas Co.	Energy
4	Deyaar Development PJSC	Real Estate & Construction
5	Drake & Scull International P.J.S.C	Real Estate & Construction
6	Emaar Properties PJSC	Real Estate & Construction
7	Dubai Refreshment Company	Consumer Staples
8	Gulf Cement Co.	Industrial
9	Gulf General Investments Company	Investment
10	Gulf Pharmaceutical Industries	Industrial
11	National Corp for Tourism and Hotels	Services
12	Union Properties PJSC	Real Estate & Construction
13	United Foods Company PSC	Consumer Staples
14	National Central Cooling Co	Services
15	Dubai Investments PJSC	Investment
16	Abu Dhabi Aviation Co	Transportation
17	Abu Dhabi National Co. for Building Materials	Real Estate & Construction
18	Al Dar Properties	Real Estate & Construction
19	AL KHALEEJ Investment	Investment
20	Arabtec Holding PJSC	Investment
21	DUBAI REFRESHMENTS	Food & Beverages
22	Fujairah Building Industries P.S.C	Industrial
23	Gulf Navigation Holding PJSC	Industrial
24	Gulfa Mineral Water & Processing Industries Co.	Industrial
25	National Corporation for Tourism & Hotels	Services
26	RAK Ceramics PJSC	Industrial
27	Sharjah Cement and Industrial Development Co	Industrial
28	UNIKAI FOODS P.J.S.C	Food & Beverages
	QATAR	
29	Mesaieed Petrochemical Holding Company Q.S.C	Industrial
30	Qatar Electricity & Watar Co	Industrial
31	Qatar Fuel	Industrial
32	Al Meera Consumer Goods Company	Services
33	barwa real estate	Real Estate & Construction
34	Ezdan Holding Group	Real Estate & Construction

N	Company	sector
35	Gulf Warehousing	Transportation
36	Mannai Corp	Industrial
37	Mazaya Qatar	Real Estate & Construction
38	medicare group Qatar	Services
39	Qatar German For Medical Devices	Services
40	Qatar National Cement Company	Industrial
41	Qatar Navigation	Transportation
42	Qatar Widam food Meat and Livestock	Services
43	Qatar-Ooredoo	Telecommunication
44	salam international	Services
45	United Development Company	Real Estate & Construction
46	VodaFone Qatar	Telecommunication
47	Qatar Industrial Manufacturing	Industrial
48	Gulf International Services Company	Industrial
49	Industries of Qatar	Industrial
50	Qatar Gas transport	Transportation
51	Qatari Investors Group (Al-Khalij Holding)	Industrial
	BAHRAIN	
52	bahrain aluminum company	Industrial
53	Bahrain Cinema Company	Services
54	Bahrain Duty Free Shop Complex Co	Investment
55	Bahrain Telecommunication Co	Services
56	Bahrain Tourism Company	Hotel & Tourism
57	Delmon Poultry Co	Industrial
58	GFH Group	Investment
59	INOVEST	Investment
60	National Hotels Co	Hotel & Tourism
61	Seef Properties Co	Services
62	Trafco Group B.S.C	Services
63	Bahrain Family Leisure	Hotel & Tourism
64	bahrain ship repairing & engineering company	Industrial
65	Gulf Hotel Group B.S.C	Hotel & Tourism
66	Zain Bahrain B.S.C	Services
	OMAN	
67	ACWA POWER BARKA (APBS)	Energy
68	Al Buraimi Hotel	Hotel & Tourism
69	DHOFAR BEVERAGES FOOD STUFF (DBCI)	Food & Beverages
70	DHOFAR CATTLE FEED (DCFI)	Food & Beverages
71	DHOFAR POULTRY (DPCI)	Food & Beverages
72	DHOFAR TOURISM (DTCS)	Services

N	Company	sector
73	GULF HOTELS (OMAN) (GHOS)	Hotel & Tourism
74	NAT. PHARMACEUTICAL IND. (NPMI)	Industrial
75	NATIONAL MINERAL WATER (NMWI)	Industrial
76	OMAN AND EMIRATES INV. HOLDING (OEIO)	Investment
77	OMAN CHLORINE (OCHL)	Industrial
78	OMAN INT. MARKETING (OIMS)	Services
79	OMAN PACKAGING (OPCI)	Services
80	PACKAGING CO. LTD (PCLI)	Services
81	VOLTAMP ENERGY (VOES)	Energy
82	AL ANWAR HOLDING	Industrial
83	AL ANWAR CERAMIC TILES	Industrial
84	Al Batinah Development & Investment Co.	Investment
85	Jazeera Steel Products	Industrial
86	A'Saffa Food Co.	Services
87	Hotels Management Co. Int.	Services
88	Oman Euro Foods Industries Co	Industrial
89	Oman Education & Training Investment	Services
90	Al Fajar Al Alamia	Industrial
91	Al Hassan Engineering Co.	Industrial
92	Al Jazeira Services Co.	Services
93	Sharqiya Investment Holding Co.	Investment
94	Al Maha Petroleum Products Marketing Co.	Services
95	Gulf International Chemicals Co.	Industrial
96	Gulf Investment Services Co.	Investment
97	Majan Glass Co.	Industrial
98	The National Detergent Co.	Industrial
99	National Gas Co.	Industrial
100	Oman Cement Co.	Industrial
101	Oman Ceramics Co.	Industrial
102	Oman Flour Mills Co.	Industrial
103	Oman Telecommunications Co.	Services
104	Sharqiyah Desalination Co.	Services
105	United Power Co.	Services
106	The Financial Corporation Co.	Investment
107	Sembcorp Salalah	Services
108	ACWA POWER BARKA	Services
109	Al Kamil Power Co	Energy
110	AL MADINA INVESTMENT Holding Co.	Investment
111	Abrasives Manufacturing Co.	Industrial
112	Renaissance Services Co	Services

N	Company	sector
113	National Biscuit Industries Co.	Industrial
114	NATIONAL REAL ESTATE DEVLOPMEN	Industrial
115	National Aluminium Products Co	Industrial
116	OMINVEST	Investment
117	Taageer Finance	Investment
118	Galfar Engineering & Contracting Co.	Services
119	Sweets of Oman Co.	Industrial
120	Raysut Cement Co.	Industrial
121	Shell Oman Marketing Co	Services
122	Sohar Power	Energy
123	Salalah Port Services Co.	Services
124	Oman Cables Industry Co	Industrial
125	Computer Stationery Industry Co.	Industrial
126	Sahara Hospitality Services Co.	Services
127	Dhofar Fisheries Industries Co.	Industrial
128	Dhofar International Dev. & Inv. Holding Co	Investment
129	Oman Orix Leasing Co.	Services
130	Oman Refreshment Co. Ltd	Industrial
131	Voltamp Energy Co.	Energy
132	Majan College	Services
133	Gulf Stone Co.	Industrial
134	Muscat Gases Co	Industrial
135	Muscat Thread Mills Co.	Industrial
136	Salalah Beach Resort	Services
137	Port Services Corporation	Services
SAUDI ARABIA		
138	Abdullah Al Othaim Markets Co	Services
139	Advanced Petrochemical Co	Industrial
140	Saudi Arabia Refineries Co.	Energy
141	Yanbu National Petrochemical Co.	Materials
142	Al Sorayai Trading and Industrial Group	Consumer Durables & Apparel
143	Saudi Industrial Development Co.	Consumer Durables & Apparel
144	United Electronics Co.	Consumer Durables & Apparel
145	Wafrah for Industry and Development Co	Food & Beverages
146	Fitaihi Holding Group	Consumer Durables & Apparel
147	Dallah Healthcare Co.	Services
148	Al-Babtain Power and Telecommunication Co.	Capital Goods

N	Company	sector
149	Saudi Cable Co.	Capital Goods
150	National Industrialization Co.	Capital Goods
151	Saudi Pharmaceutical Indus. & Medical Appliances Corp.	Services
152	Emaar The Economic City	Real Estate & Construction
153	Al Hammadi Development & Investment Co.	Services
154	Bishah Agriculture Development Co.	Materials
155	Etihad Atheeb Telecommunication Co.	Services
156	United Wire Factories Company	Materials
157	Filing and Packing Materials Manufacturing Co.	Materials
158	Saudi Ceramic Co.	Capital Goods
159	Almarai Co.	Food & Beverage
160	Al-Baha Investment and Development Co	Investment
161	Alkhaleej Training and Education Co	Services
162	Altayyar Travel Group	Services
163	Alujain Corp	Industrial
164	Astra Industrial Group	Industrial
165	Basic Chemical Industries Co.	Industrial
166	Dar Alarkan Real Estate Development Co	Real Estate & Construction
167	Fawaz Abdulaziz Alhokair Co	Services
168	Halwani Bros. Co	Industrial
169	Herfy Food Services Co	Services
170	Jarir Marketing Co	Industrial
171	Mouwasat Medical Services Co	Services
172	National Medical Care Co	Services
173	Rabigh Refining and Petrochemical Co	Energy
174	Saudi Steel Pipe Co	Industrial
175	Saudia Dairy and Foodstuff Co	Industrial
176	Savola Group	Industrial
177	United International Transportation Co	Transportation
178	Abdullah A. M. Al-Khodari Sons Co	Real Estate & Construction
179	Al Gassim Investment Holding Co	Food & Beverages
180	Al-Ahsa Development Co	Industrial
181	Jabal Omar Development Co	Real Estate & Construction
182	Jazan Energy and Development Co	Energy
183	Knowledge Economic City	Services
184	Makkah Construction and Development Co	Real Estate & Construction
185	Middle East Specialized Cables Co	Industrial
186	Northern Region Cement Co	Industrial
187	Sahara Petrochemical Co	Industrial

N	Company	sector
188	Saudi Electricity Co	Energy
189	Saudi Industrial Export Co	Industrial
190	Saudi Telecom Co	Services
191	Saudi Vitrified Clay Pipes Co	Industrial
192	Yanbu Cement Co	Industrial

Appendix B

Variables` Definitions and Primary Sources.

Name of Variable	Definitions and Primary Sources.
Foreign share ownership	Percent of total shares outstanding, that foreign investors owned in company at the end of the financial year. Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Board size	Number of directors on a company's board. Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Board independence	Number of independent directors divided by the total number of directors on company's board. Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Board meetings	Total number of meetings held by the board of directors during the year. Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Board financial expertise	Board members have an educational qualification in accounting or financial experience. Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/).

Name of Variable	Definitions and Primary Sources.
	Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Board of Director's Effectiveness	Combined impact of board characteristics (size, independence, meetings, and financial expertise). Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Audit committee size	Number of directors on the company's audit committee. Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Audit committee independence	Number of independent directors divided by total number of directors on the company's audit committee. Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Audit committee meeting	Total number of meetings held by the audit committee during the year. Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Audit committee financial expertise	Audit committee members have an educational qualification in accounting or financial experience. Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/).

Name of Variable	Definitions and Primary Sources.
	Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Audit Committee effectiveness	Combined impact of audit committee characteristics (size, independence, meetings, and financial expertise). Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Audit quality	Indicator variable which takes the value of one if the firm is audited by a Big 4 auditor, and zero if otherwise. Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Family ownership	A percentage of shares held by shareholders and their relatives with equity ownership more than 5%. Whether these shareholders are independent or non-independent from management either individuals, institutions or Executive and non-executive directors. Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Local institutional investors	Proportion of shares held by local institutional investors (Banks, insurance companies and pension funds). Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).

Name of Variable	Definitions and Primary Sources.
Adoption of English language in external financial reporting	Indicator variable which takes the value of one if the company had an English annual report during the sample period, and zero if otherwise. Source: Annual reports of non-financial listed companies were obtained from the official websites of GCC stock markets; Saudi Stock Exchange (Tadawul) (https://www.tadawul.com.sa/). Qatar Stock Exchange (DSM) (https://www.qe.com.qa/). Abu Dhabi Stock Exchange (ADX) (https://www.adx.ae). Dubai Financial market (DFM) (https://www.dfm.ae/). Muscat Stock Exchange (MSM) (https://www.msm.gov.om/). Bahrain Stock Exchange (BB) (http://www.bahrainbourse.com/).
Firm performance	The sum of the market value of equity and book value of total debts is divided by the book value of total assets, for every non-financial listed firms in the GCC stock markets that included in this study. Source: DataStream database.
Firm size	Natural logarithm of the total assets for every non-financial listed firms in the GCC stock markets that included in this study. Source: DataStream database.
Leverage	The total liabilities dividing by the total assets, for every non-financial listed firms in the GCC stock markets that included in this study. Source: DataStream database.
Political risks	Political risk index provided by International Country Risk Rating (ICRG) of each GCC countries, namely, the United Arab Emirates, Bahrain, Oman, Saudi Arabia, and Qatar. Source: Official website of Political Risk Services database (https://www.prsgroup.com/).
Exchange rate risks	Proportion of change of the nominal exchange rate of local currencies of the GCC to the US dollar of each GCC countries currency, namely, the United Arab Emirates, Bahrain, Oman, Saudi Arabia, and Qatar. Source: Official website of the World Bank database (http://www.worldbank.org/).
Inflation risk	Yearly percentage of change in the GDP deflator of each GCC countries, namely, the United Arab Emirates, Bahrain, Oman, Saudi Arabia, and Qatar. Source: Official website of the World Bank database (http://www.worldbank.org/).
Economic growth (GDP)	Yearly GDP growth rate of each GCC countries, namely, the United Arab Emirates, Bahrain, Oman, Saudi Arabia, and Qatar. Source: Official website of the World Bank database (http://www.worldbank.org/).

Appendix C

An Extracts of Drake & Scull Annual Corporate Governance Report 2015.

Appendix C shown on how data of ownership, board characteristics, audit committee characteristics being collected.

Drake & Scull

ANNUAL CORPORATE GOVERNANCE REPORT 2015

3. Composition of the Board of Directors and the statement of qualification of the board

The composition of the BOD for the year 2015

Name	Particulars (Executive/ Non Executive)	Qualification	Business & Management Experience (Years)	Committee Memberships	Board / Committee Chairmanships	Date of Joining
Mr. Majid Saif Al Ghurair	Non-Executive Member	BA in Business Administration	25	-	Chairman	28-08-08
Mr. Khaldoun R.S. Tabari	Executive Member	B.S. Management	42	-	CEO	28-08-08
Mr. Yousef Al Nowais	Non-Executive Member	BS in Business Administration	30	Independent Member / Audit Committee	-	28-08-08
Mr. Jamal Al Nuaimi	Non-Executive Member	(MBA)/(BS)-Aviation Management	18	Independent Member / Nomination & Remuneration Committee	Audit Committee	15-03-10
Mr. Khalaf Sultan Al Daheri	Non-Executive Member	Advanced Management Program/ MBA/CPA/Bachelor Degree in "Accounting"	12	Independent Member / Nomination & Remuneration Committee & Audit Committee	Remuneration Committee	07-11-10
Mr. Talal Al Bahar	Non-Executive Member	Bachelor Degree in Business Studies	18	Non-Independent Member / Nomination & Remuneration Committee	-	28-08-08
Mr. Ivor Goldsmith	Non-Executive Member	Engineering Diploma IHVE , London University	35	Non-Independent Member / Audit Committee	-	28-08-08
Mrs. Zeina Al Tabari	Executive Member	MBA in Finance	15	-	-	28-05-15
Mr. Khalifa Al Khouri	Non-Executive / Independent Member	MBA	13	Independent Member / Nomination & Remuneration Committee	-	28-05-15

Source; *Drake & Scull annual corporate govenance report 2015*

3.C Board Meetings convened during the Year 2015

NAME	1st Board Meeting 07 Jan 15	2nd Board Meeting 12 Feb 15	3rd Board Meeting 30 Mar 15	4th Board Meeting 13 Mar 15	5th Board Meeting 04 Jun 15	6th Board Meeting 11 Aug 15	7th Board Meeting 12 Nov 15
Mr. Majid Saif Al Ghurair	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Mr. Khaldoun Tabari	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Mr. Yousef Al Nowais	Attended	Attended	Attended	Attended	Apologized	Apologized	Attended
Mr. Jamal Al Nuaimi	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Mr. Khalaf Al Daheri	Attended	Attended	Attended	Apologized	Apologized	Apologized	Attended
Mr. Talal Al Bahar	Attended	Attended	Attended	Apologized	Attended	Attended	Attended
Mr. Ivor Goldsmith	Apologized	Attended	Attended	Apologized	Attended	Attended	Attended
Mr. Khalifa Yousef Al Khouri	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Attended	Apologized	Attended
Mrs. Zeina Al Tabari	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Attended	Attended	Attended

Source; *Drake & Scull annual corporate govenance report 2015*

4. External Auditors

i. DSI has appointed Pricewaterhouse Coopers (pwc) external auditors to undertake audit of financial statements since 2011.

ii. During the year, pwc was engaged to assess and independently review the Group's Business Plan. The details of the fee charged for the above are mentioned in the below table

Details of the external auditor of the Company :

Name of the Auditor	PricewaterhouseCoopers
Number of years as external Auditor	5 years
Professional fee for External Audit	AED 1,800,000
Professional fee for any other services	US$ 195,000
Nature & Details of other services offered	Consultancy for perpetual Sukuk Issuance

Brief about PWC:

PWC is one of the world's largest providers of assurance, tax, auditing and business consulting services.

Source; *Drake & Scull annual corporate govenance report 2015*.

5. Audit Committee

Composition of Audits Committee :

NAME	TITLE	1st AC Meeting 07 Jan 15	2nd AC Meeting 30 Mar 15	3rd AC Meeting 03 May 15	4th AC Meeting 11 Aug 15	5th AC Meeting 12 Nov 15
Mr. Yousef Al Nowais	Chairman	Attended	Attended	Attended	Not Applicable	Not Applicable
Mr. Jamal Al Nuaimi	Chairman	Not Applicable	Not Applicable	Not Applicable	Attended	Attended
Mr. Khalaf Al Daheri	Member	Attended	Attended	Attended	Apologized	Attended
Mr. Ivor Goldsmith	Member	Attended	Attended	Apologized	Attended	Attended

Mr. Jamal Al Nuaimi was nominated as the member and Chairman of the Audit Committee.

Source; *Drake & Scull annual corporate govenance report 2015*

11.C Shares Distributions as of December 31, 2015

Statement	National	GCC	Arab	Foreign	Total	%age
Individual	771,146,162	36,733,910	340,172,278	70,510,889	1,218,563,239	53.3277
Companies	151,265,516	110,158,576	415,832,517	278,056,042	955,312,651	41.8071
Banks	75,794,385	16,241,361	769,667	8,824,719	101,630,132	4.4476
Governments	5,001,099	NIL	NIL	NIL	5,001,099	0.2189
Institutional	4,539,546	NIL	NIL	NIL	4,539,546	0.1987
Total	**1,007,746,708**	**163,133,847**	**756,774,462**	**357,391,650**	**2,285,046,667**	**100.0000**
%age	44.1018	7.1392	33.1186	15.6405	100.0000	

Source; *Drake & Scull annual corporate govenance report 2015*

11.D Shareholders with 5% or more shares

Shareholder	No of Shares (Mn)	Percentage
Clarity Fund SPC Limited	210,000,000	9.19%
KRT3 Limited	197,315,497	8.64%
Khaldoun Rashid Saeed Al Tabari	189,750,552	8.30%

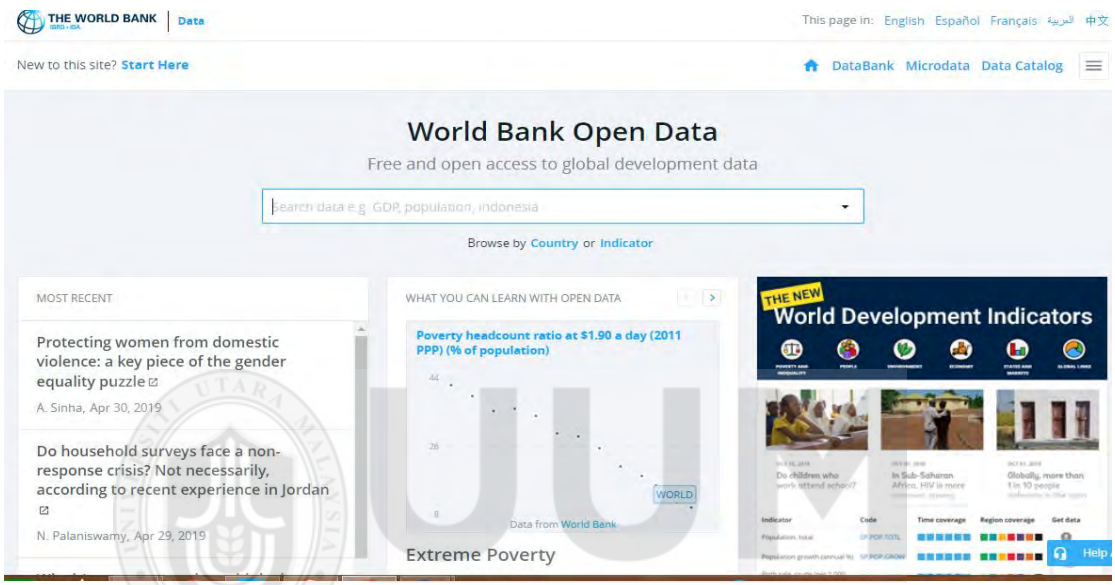
Source; *Drake & Scull annual corporate govenance report 2015*

Appendix D

An Extracts of World Bank Database and Political Risk Services Database.

Appendix D shown on how the data such as exchange rate and economic growth and political risk being collected.

World Bank database



Country Name	Indicator Name	2012	2013	2014	2015
Arab World	LCU per US$, period average				
United Arab Emirates	LCU per US$, period average	3.6725	3.6725	3.6725	3.6725
Bulgaria	LCU per US$, period average	1.52205	1.4735667	1.47418333	1.7644
Bahrain	LCU per US$, period average	0.376	0.376	0.376	0.376
Brazil	LCU per US$, period average	1.953069	2.1560892	2.35295196	3.3269044
Canada	LCU per US$, period average	0.99918831	1.0297966	1.10610494	1.2790979
Switzerland	LCU per US$, period average	0.93768448	0.9269035	0.91615105	0.9623813
United Kingdom	LCU per US$, period average	0.63304699	0.6396606	0.60772963	0.6545455
Iraq	LCU per US$, period average	1166.16667	1166	1166	1167.3333
Korea, Rep.	LCU per US$, period average	1126.47083	1094.8529	1052.96083	1131.1575
Kuwait	LCU per US$, period average	0.27993556	0.2835894	0.28456714	0.300852
Malaysia	LCU per US$, period average	3.08880087	3.1509086	3.27285975	3.9055003
Oman	LCU per US$, period average	0.3845	0.3845	0.3845	0.3845
Qatar	LCU per US$, period average	3.64	3.64	3.64	3.64
Romania	LCU per US$, period average	3.4682	3.3279167	3.349175	4.0056667
Russian Federation	LCU per US$, period average	30.8398314	31.837144	38.3782071	60.93765
Rwanda	LCU per US$, period average	614.295142	646.63597	681.861719	720.97511
South Asia	LCU per US$, period average				
Saudi Arabia	LCU per US$, period average	3.75	3.75	3.75	3.75

Data Source; World Bank Development Indicators

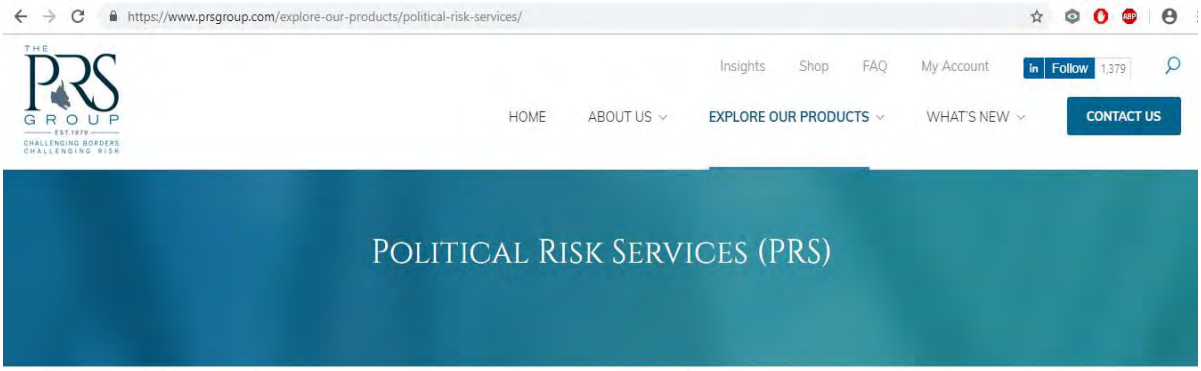
Country Name	Indicator Name	2012	2013	2014	2015
United Arab Emirates	GDP growth	6.792621628	4.728897293	3.079884331	3.757642853
Australia	GDP growth	3.632720303	2.440049062	2.499851222	2.240028575
Bahrain	GDP growth	3.72810843	5.41683981	4.350483603	2.862955875
Iraq	GDP growth	13.93643017	6.572160298	0.060108872	3.019924564
Kuwait	GDP growth	6.626388081	1.149038847	0.500109942	1.846999262
Malaysia	GDP growth	5.474385463	4.692919186	6.01216652	4.968785216
New Zealand	GDP growth	2.329684263	2.743985124	3.5761758	3.392999933
Oman	GDP growth	9.332675576	4.372615776	2.542739242	5.653073739
Pakistan	GDP growth	3.50703342	4.396456633	4.674707981	4.712457804
Qatar	GDP growth	4.687259177	4.410274619	3.978882147	3.551015687
Romania	GDP growth	0.640965688	3.531603199	3.07630231	3.66295969
Russian Federation	GDP growth	3.517941865	1.279453911	0.70637056	-3.72667344
Saudi Arabia	GDP growth	5.38446595	2.669911395	3.638699049	3.485616792

Data Source; World Bank Development Indicators

Country Name	Indicator Name	2012	2013	2014	2015
United Arab Emirates	Inflation	0.330968461	-0.63737246	0.347302783	-11.2131854
Australia	Inflation	2.05591428	-0.19937132	1.413621118	-0.65182248
Bahrain	Inflation	3.014765852	0.384057963	-1.67089004	-9.36925158
Iraq	Inflation	2.669769383	0.984153519	-2.58048759	-23.495238
Kuwait	Inflation	7.486702949	0.223535798	-6.75718841	-27.2060146
Malaysia	Inflation	0.998936551	0.175247945	2.464434766	-0.37108284
New Zealand	Inflation	-0.09707201	3.818335137	0.172026507	-0.1150356
OECD members	Inflation	1.540294079	1.431897907	1.111580418	1.038130634
Oman	Inflation	3.246226654	-1.37882877	0.109973127	-18.4371147
Pakistan	Inflation	5.968574381	6.965943079	7.411553241	4.318862124
Qatar	Inflation	6.373389929	1.87332555	-0.19849738	-22.9018115
Romania	Inflation	4.685619394	3.417085978	1.68590752	2.91861977
Saudi Arabia	Inflation	4.025152809	-1.22300404	-2.27996943	-17.1906521
Sudan	Inflation	34.87620384	34.90340025	33.89517414	17.90375845

Data Source; World Bank Development Indicators

Political Risk Services Database



"...A CONSISTENT METHODOLOGY...EXPERT JUDGMENT FROM THEIR ANALYSTS"

The IMF Executive Board
Policy Paper, January 2014

Country	Bahrain	Oman	Qatar	Saudi Arabia
Variable	Political Risk Rating	Political Risk Rating	Political Risk Rating	Political Risk Rating
01/2012	68	85	71	67
02/2012	68	85	71	67
03/2012	68	85	72	67
04/2012	68	85	72	68
05/2012	67.5	85	72.5	68
06/2012	67	85	72.5	68
07/2012	67	85	72.5	68
08/2012	67	85	72.5	68
09/2012	67	85	72.5	68
10/2012	66	85	72.5	68
11/2012	65	85	72.5	68.5
12/2012	65	85	72.5	68
total	66.95833333	85	72.16666667	67.79166667

Country	Bahrain	Oman	Qatar	Saudi Arabia
Variable	Political Risk Rating	Political Risk Rating	Political Risk Rating	Political Risk Rating
02/2013	64	86	72.5	68
03/2013	64	86	72.5	68
04/2013	64	86	72.5	68
05/2013	64	86	72.5	68
06/2013	64.5	86	72.5	68
07/2013	64	86	72.5	68
08/2013	63.5	86	72.5	67
09/2013	63.5	86	72.5	67
10/2013	63.5	86	72.5	67
11/2013	63.5	86	72.5	67
12/2013	63.5	86	72.5	67
total	63.875	86	72.5	67.58333333

Country	Bahrain	Oman	Qatar	Saudi Arabia
Variable	Political Risk Rating	Political Risk Rating	Political Risk Rating	Political Risk Rating
02/2014	63.5	84	72.5	66.5
03/2014	64	84	72.5	66.5
04/2014	64	84	72.5	66.5
05/2014	64	84	72.5	66.5
06/2014	62.5	84	72.5	66
07/2014	62.5	84	72.5	65
08/2014	61.5	84	72.5	65
09/2014	61.5	84	72.5	65
10/2014	61.5	84	72.5	64
11/2014	63.5	84	72.5	64
12/2014	63.5	84	73.5	64.5
total	62.90909091	84	72.59090909	65.40909091

Country	Bahrain	Oman	Qatar	Saudi Arabia
Variable	Political Risk Rating	Political Risk Rating	Political Risk Rating	Political Risk Rating
02/2015	64	82	73.5	65.5
03/2015	63.5	82	73.5	66
04/2015	63.5	82	73.5	65.5
05/2015	63.5	82	73.5	65
06/2015	63.5	82	73.5	66
07/2015	63.5	82	73.5	66.5
08/2015	63.5	82	73.5	66.5
09/2015	63	82	73.5	66
10/2015	63	82	73.5	66
11/2015	63	82	73.5	66
12/2015	63	82	73.5	67
	63.41666667	82	73.5	65.875