CORPORATE GOVERNANCE AND COST OF EQUITY: AN EMPIRICAL INVESTIGATION OF THE UNITED ARAB EMIRATES STOCK MARKET

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Abstract

The set of rules, laws, and procedures that lead and regulate a firm is known as corporate governance (Alqaraleh et al., 2022). The primary objective of this study was to investigate the effect of the corporate governance index on the cost of equity for businesses listed on the United Arab Emirates (UAE) Stock Exchange. This study gathers data from yearly reports from 2015 to 2021 in order to test hypotheses using multiple linear regression models to analyze the gathered data. The independent variable of the corporate governance index in our research consists of eight distinct corporate governance characteristics. According to the findings of our investigation, there is a negative correlation between corporate governance and equity capital cost. This indicates that the quality of corporate governance may lower the cost of capital. In order to improve the quality of financial reporting, we advocate implementing a robust corporate governance framework and reducing information asymmetry, i.e., increasing transparency and agency conflict, therefore, attracting financial investors and suppliers, enhancing the capital market, and absorbing the organization's required financial resources at a reduced rate. The study results suggest that corporations might minimize the cost of equity by creating excellent corporate governance. In the cost of equality, the result of the study emphasizes the significance and efficacy of corporate governance.

Keywords: Corporate Governance, Index of Corporate Governance, Cost of Equity


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1. INTRODUCTION

Corporate governance is the set of rules, regulations, and practices that guide and control a company (Al Nawaiseh et al., 2021; Alqaraleh et al., 2022). The practice of balancing the requirements of a company's numerous stakeholders is known as stakeholder management. Good corporate governance assists businesses in building trust with society and investors (Ali & Oudat, 2021; Ebrahim et al., 2021). According to Hussainey and Aljifri (2012), empirical analysis suggests that corporate governance mechanisms have important implications for UAE firms' financial policies. UAE managers should be aware of the benefits of the implementation of effective internal and external corporate governance mechanisms while embracing international corporate governance standards. An effective implementation of the codes of corporate governance should improve the efficiency and effectiveness of UAE firms and the UAE stock markets.

The cost of equity is the interest rate of return that an organization is expected to pay if it invests its capital return requirements (Al Nawaiseh et al., 2022; Thuneibat et al., 2022; Alsmadi et al., 2020). The cost of equity of a corporation represents the market's desire for remuneration in exchange for owning the asset and carrying the burden of ownership (Krismijadi & Raharja, 2018). Furthermore, this research will delve into further detail on corporate governance and cost equity in the UAE, as well as how governance affects businesses' cost of equity. The cost of capital impacted the company's investment choices and operations, as well as its conduct when interacting with investors (Vitolla et al., 2020). As a result, the link between corporate governance quality and capital costs is critical in determining the security of investing money in organizations that are devoted to corporate governance (Faysal et al., 2021). For ages and around the globe, capital expenditure has been a crucial concern and the backbone of organizations for maintaining cash flow, growth, and access to lower-cost investment (Alqaraleh et al., 2022; Gharaibeh et al., 2022). The cost of equity is a critical factor in the lifespan and continuity of businesses (Zandi et al., 2021). According to AlHares (2020), the cost of capital is one of the most important elements in attracting internal and external investment in companies and serves as a meeting point between the investor and the company, and that the real goal of corporate governance is to minimize the agency problem, which can contribute to lower risks, regulate management responsibilities and improve performance, and control the mismanagement behavior in the confiscation of shareholders' wealth (Alqaraleh et al., 2022; Ali et al., 2023; Saleh et al., 2023). The primary goal of this study is to discover how corporate governance affects the cost of equity for companies listed on the UAE Stock Exchange. The contributions of this study are significant for a few reasons. First, most prior research on the topic has focused on the connection between corporate governance and firm performance rather than the cost of capital. Second, prior research has typically only examined a subset of corporate governance practices. Third, this study may emphasize the relevance of all components of corporate governance in organizations, which is particularly relevant given that corporate governance traits may complement or replace one another. Further research in this area might benefit from the foundation provided by this work. To address this deficiency, we use the corporate governance index, developed for this purpose and based on the financial records of the firms evaluated, to assess a comprehensive and wholly new dataset and corporate governance indicators tailored for the UAE Stock Exchange. Primarily, this research provides empirical proof that a company's cost of stock is correlated with its corporate governance rating.

The rest of the paper is structured as follows. The literature review and hypotheses are presented in Section 2. The research technique, including a description of the study model and variables, is presented in Section 3. The data analysis and discussion of the findings are presented in Section 4. The conclusion is presented in Section 5.

2. LITERATURE REVIEW

In this part, we will review the previous research that has been done on the subject. As a result, we focus on empirical research studies that are linked to this topic. The influence of corporate governance on the cost of equity is one of the primary topics covered in this discussion. A description of each is given below in further detail.

2.1. The influence of corporate governance on the cost of equity

Hashmi, Istaqil, and Brahmana (2023) investigated the impact of corporate governance and ownership concentration levels on the cost of equity. According to the findings, greater corporate governance lowers the cost of equity, but higher levels of ownership concentration raise the cost of equity. As a result, the authors conclude that corporations may reduce shareholder risk by establishing genuine corporate governance procedures. Moreover, efficient corporate governance systems at high levels of ownership concentration are required to manage the cost of equity. Meanwhile, corporate governance has a considerable impact on debt costs. These results imply that if organizations adopt corporate social responsibility (CSR) just to get a favorable decrease in loan costs, the effect of CSR implementation may fall short of their expectations.

The cost of equity is the core goal of financial literature and is a vital component of corporate finance investment and choices (Gharaibeh et al., 2022; Jawabreh, Jahmani, et al., 2022; Jawabreh, Shniekat, et al., 2022). To determine the appropriate financial resources, the company's management must evaluate the cost of financing as well as the effects that these resources will have on the company's returns and risk (Alqaraleh et al., 2022; Alrabei et al., 2022; Alshirah et al., 2022).

Anwar et al. (2019) used a regression model using panel data from 24 Asian nations from 2006 to 2015 to assess the degree to which governance influences business and cost of equity capital in Asian countries. The findings show that the quality of the corporate governance index has a strong link
with lowering the cost of equity for enterprises in Asian nations. The findings also show that explicit corporate governance factors such as board independence, audit committee independence, ownership concentration, and chief executive officer (CEO) duality have a substantial connection with a firm’s cost of equity in Asian nations, which is consistent with the agency theory.

Similarly, Vitolla et al. (2020) evaluated the influence of integrated reporting quality on the firm’s cost of equity capital, due to the critical relevance of this parameter for enterprises and investors. The findings show that integrated reporting quality has a strongly negative relationship with the cost of equity capital, implying that integrated reporting quality is a novel strategy to minimize the cost of equity.

Abdelrahman Al Ali et al. (2022) mentioned that to be an effective corporate governance tool, audit committees should monitor official announcements related to the integrity of the company’s financial statements and review the judgements of important financial reports, as well as review the company’s internal control and risk management system. Monitor and evaluate the effectiveness of the company’s internal audit function, make a recommendation to the board of directors for the appointment of an external auditor, seek shareholder approval at the annual meeting, and approve the terms of the external auditor’s remuneration and contract. Zandi et al. (2021) explored the link between corporate governance and the cost of equity capital; data were obtained from 294 businesses listed in two developing stock markets in Pakistan and India between 2010 and 2019. The findings have substantial implications for policymakers, business management, and other stakeholders, and may be useful in creating and implementing legislation to improve corporate governance systems, safeguard shareholder interests, and boost market trust. Faysal et al. (2021) investigated the impact of corporate governance procedures on the cost of equity of Iraqi nonfinancial enterprises listed on the Iraq Stock Exchange. To meet the study’s goal, all listed businesses on the Iraq Stock Exchange were included as the study’s population from 2012 to 2017 (34 Iraqi listed companies). To assess the link between variables, the researchers employed a set of statistics to estimate the multiple regression model suited for the investigation. The findings show that board size and CEO tenure have a considerable beneficial influence in lowering the cost of equity. Finally, the findings show that audit quality has a favorable influence in lowering the cost of equity in the scenario. Krismiagi and Raharja (2018) investigated the influence of corporate governance practice on the cost of equity capital in the setting of the agency issue and information asymmetry. The data for this research came from the Indonesian Capital Market Directory, the Indonesian Stock Exchange database, and corporate annual reports. This study discovers evidence of a negative relationship between corporate governance and the cost of equity capital. Zulkufly (2012) evaluated the influence of corporate governance on the cost of equity of Malaysian publicly traded enterprises from 2003 to 2007. A comprehensive corporate governance index comprised of six areas is used to measure corporate governance quality. Using the panel data regression approach, this research discovers that corporate governance has a lower influence on the cost of equity. Firms with greater corporate governance quality in terms of credible board monitoring, financial reporting process, internal control system, and empowering shareholders seem to have a lower cost of equity. These results show that enterprises in developing countries with better quality corporate governance have fewer agency conflicts and information risk, as well as considerable economic advantages. Qubbaja (2018) investigated the impact of corporate governance quality on the cost of equity capital of Palestinian listed firms from 2010 to 2016. This research discovered that corporate governance quality has a lower impact on the cost of equity capital. AlHares (2020) evaluated the influence of corporate governance procedures on the cost of capital in Organization for Economic Co-operation and Development (OECD) nations. To investigate the associations, conventional least-squares multiple regression analysis was utilized. The findings were inconsistent with other metrics and endogeneities. The findings revealed that the corporate governance index and director ownership were adversely associated with the cost of capital. Dirman (2019) investigated the relationship between effective corporate governance and the cost of equity capital. The findings of this research demonstrate that effective corporate governance has a beneficial influence on the cost of equity capital. According to the literature study, there is inconsistency in the results of research conducted all over the globe. According to studies, there is a considerable positive association between corporate governance and the cost of equity capital (Dirman, 2019; Faysal et al., 2021; Anwar et al., 2019; Vitolla et al., 2020; Zandi et al., 2021). Other research has shown a negative relationship between corporate governance and the cost of equity capital (AlHares, 2020; Krismiagi & Raharja, 2018). Therefore, the first hypothesis of the study is as below:

**H1: Corporate governance has a negative relationship with the cost of equity capital.**

### 2.2. Factors that affect the cost of equity

According to a study by Abu Alia et al. (2022), this study provides evidence of the relationship between corporate governance and the cost of equity. This study utilizes all nonbanking institutions from 2009 to 2018. For control variables, leverage, firm size, and growth had positive effects on the cost of equity, whilst the auditor quality had a negative effect.

According to Salehi et al. (2020), the goal of this research was to look at the effect of the corporate governance index on the cost of equity. This research gathers data from 975 observations from 2012 to 2018 in order to evaluate hypotheses using a multiple linear regression model for panel data. According to the findings of hypothesis testing, corporate governance has a negative and substantial influence on the rate of capital cost. They discovered in their research that there was a significant correlation between leverage, firm size, net sales growth, operational cash flow, inventory, and the cost of equity. Nevertheless, there was no
significant correlation between firm growth, firm loss, property, plant, and equipment, accounts receivable, and company age and the cost of equity.

Consequently, the goal of this study is to give a rigorous test of whether larger organizations benefit more from increased disclosure than smaller firms. In both small and large enterprises, there was a substantial relationship between leverage, firm size, and the cost of stock. Yet, the results demonstrate a strong negative association between transparency and the cost of equity capital for large enterprises, but not for small firms.

Battisti et al. (2020) looked at the effect of leverage on the cost of capital and market value of enterprises. This research employs a mixed methods sequential exploratory approach and is based on an empirical investigation of enterprises listed on the Indonesia Stock Exchange (IDX). A qualitative analysis was carried out in particular to identify Shariah-compliant enterprises, and the qualitative research was meant to compare various financial factors in listed companies. First, the analytical findings demonstrate that Shariah-compliant businesses, defined as those that adopt Islamic principles, have a higher cost of capital (cost of equity and weighted average cost of capital (WACC)) than non-Shariah enterprises due to their lower level of leverage.

Aharon and Yağil (2019) investigated the impact of financial leverage on the cost of equity. The purpose was to compare theoretical models containing each market imperfection with real values while testing the theoretical link between the cost of equity and leverage under different forms of market imperfections such as taxes and bankruptcy fees. Regardless of the measurements utilized for the important variables, the empirical findings in each model examined suggest a positive association between the cost of equity and leverage. In particular, we establish four major findings: 1) the relationship between the cost of equity and leverage is positive; 2) R-squared is significantly higher in risky debt models than in risk-free debt models; 3) market measures of leverage tend to generate higher R-squared than book measures of leverage; 4) the model that best represents the relationship between the cost of equity and leverage incorporates a risky debt measure. As a consequence of the results, hazardous debt should be included in the calculation of the cost of equity; otherwise, the cost of equity and the consequent weighted average cost of capital may be skewed, leading to inaccurate capital budgeting choices. Therefore, the second hypothesis is as follows:

\[ H2: \text{Leverage, firm size, net sales growth, operational cash flow, property, plant, and equipment, inventory, accounts receivable and company age have a negative relation with the cost of equity capital.} \]

3. RESEARCH METHODOLOGY

The purpose of this study is to investigate the effect that the corporate governance index has on the cost of equity in firms that are traded on the UAE Stock Exchange as well as companies that are traded on Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) by making use of data from the years 2015 through 2021. The data was obtained through the Bloomberg Terminal, and the selection of the businesses was determined by how readily available it was to get environmental, social, and corporate (ESG) data as well as annual reports. This research takes into account the activities of 30 different organizations, which are spread throughout a variety of different business sectors. In the course of this investigation, and other online resources (online books, journals, and websites, for example) are used for data collecting. The statistical population that is needed for this study consists of companies that have been listed on the Dubai Stock Exchange for the seven years spanning from 2015 to 2021.

3.1. Research model and variables

According to research, this regression model is used to test our study hypotheses:

\[ \text{COE} = \beta_0 + \beta_1 CG_{it} + \beta_2 Lever_{it} + \beta_3 FSIZ_{it} + \beta_4 NSG_{it} + \beta_5 OCP_{it} + \beta_6 PPAE_{it} + \beta_7 INV_{it} + \beta_8 AR_{it} + \beta_9 CAG_{it} + \varepsilon_{it} \]  

where,

- \( \text{COE} \) Cost of equity;
- \( CG \) Corporate governance;
- \( Lever \) Leverage;
- \( FSIZ \) Firm size;
- \( NSG \) Net sales growth;
- \( OCP \) Operational cash flow;
- \( PPAE \) Property, plant, and equipment;
- \( \varepsilon_{it} \) Error term.

\[ \text{INV} \text{ Inventory; } \text{AR} \text{ Accounts receivable; } \text{CAG} \text{ Company age.} \]

The \textit{cost of equity} (COE) serves as the dependent variable, and the Eq. (2) is what we utilize to get the capital cost rate.

\[ \text{COE} \text{ is subject to measurement by the following formula:} \]

\[ \text{COE} = \text{Risk-free rate} + \text{Beta (expected market return - risk free rate)} \]

3.2. Independent variable

The corporate governance index (CGIN) measures the quality of corporate governance (Al Nawaisheh et al., 2021; Alqaraleh et al., 2022). This study employs eight characteristics for calculating corporate governance. Based on past evaluations, the corporate governance indicator is computed for scores in the following categories:

\[ \text{CGIN} = \left( \sum_{i=1}^{m} X_i \right) / n \]

According to the equation, the computation of the corporate governance index (CGIN) is equal to the scoring of the variables \( X \) divided by the score. This indicates that the score is the most important part of the calculation \( n \). The study uses the \( \text{DIV}_{it} \) which is the cash dividend of the current year,
the $DIV_{t-1}$, which is the cash dividend of the year before, and the dividend growth rate to compute the expected growth rate of shares.

### 3.3. Control variables

The control variables of the study are listed below. The leverage (Lever) is a debt-to-assets ratio of company $i$ in year $t$.

The cost of capital is often determined by a company’s capital structure (debt level). In other words, businesses are better able to take advantage of foreign financial supplies when their capital cost rate is reduced (Aharon & Yagil, 2019).

**Firm size (FSIZ)** is the variable of business size that equals the natural logarithm of the firm's book value of assets $i$ in the year $t$ (Harban et al., 2021; Wang et al., 2021).

**Net sales growth (NSG)** is the firm's net sales growth in $i$ and the year $t$, as well as an index for determining the firm’s net sales changes. Net sales growth is calculated by dividing net sales in the year $t$ by net sales in the year $(t-1)$. Sales growth shows that the business is profitable and that its future performance will improve (Alnari et al., 2021).

**Operational cash flow (OCF)** is the variable of the firm’s net operating cash flow to the book value of assets $i$ in the year $t$. The major and frequent operations of the company generate operational cash flows (Wang et al., 2021).

**Inventory (INV)** is the variable of company inventories that equals the firm’s stock to the firm’s book value of assets $i$ in the year $t$. In a competitive market, a lack of supply flexibility might lead to the company’s demise. As a consequence, an excess inventory may have a detrimental impact on the business by increasing or decreasing the cost of capital (Alkooheji et al., 2021). Inventory must be measured in monetary terms in order to be reported in the entity’s financial statements. Inventory may be quantified using either the cost that the entity experienced while purchasing or creating the item, or the net realizable value that the entity may earn when selling the item (Gharabeh et al., 2022).

**Property, plant, and equipment (PPAE)** is the variable of the firm’s physical assets that equals property, plant, and equipment (PPAD) to the firm’s book value of assets $i$ in the year $t$. One factor for attracting foreign capital is the acquisition of fixed assets, which are often purchased on credit owing to their high cost. As a result, their high acquisition cost may have an impact on the capital cost (Harban et al., 2021).

**Accounts receivable (AR)** is the variable of the firm’s accounts receivable in the year $t$ equals the firm’s accounts receivable to the book value of the firm’s assets $i$. Companies usually sell for cash or on credit. Credit selling might increase the allowed for doubtful accounts, making it difficult for the firm to get the facilities. In other words, large accounts receivable may boost a company’s ability to handle a future financial crisis while also increasing its cost of capital rate (Ali & Ali, 2022).

**Company age (CAG)** is the variable of firm age that equals the natural logarithm of the company’s age from the date of establishment to the period under study. In general, foreign financial resources are absorbed (Alkooheji et al., 2021; Harban et al., 2021).

### 4. The Analysis and Discussion of the Findings

To investigate the study hypotheses multivariate linear regression was used to examine the panel data. Initially, before model fitting, the degree of linearity between the study’s independent variables is assessed using the variance inflation test. Practical experience shows that a potential mistake arises only if the variance inflation factor is greater than 5. If it is more than 10, a considerable inaccuracy is evident, indicating that the corresponding regression coefficients are calculated insufficiently due to multivariate collinearity. The corresponding regression coefficients were calculated poorly due to collinearity. According to the findings of this test, there is no substantial collinearity between independent variables. The Durbin–Watson statistic is used to determine whether or not the independent variables have autocorrelation. The value of this statistic ranges between 0 and 4. This statistic value should be near 2, and there is no association between frequent residuals. The number indicates a positive correlation between residuals, implying that the statistic value is near zero (0). If it is near 4, there is no link among model mistakes, thus we may accept the premise. This test also demonstrates that there is no autocorrelation problem. When selecting a data analysis tool, the data might be time series, cross-sectional, or pooled. Because the data in this research are pooled (panel), it is critical to indicate whether they are panel or pooled. The Chow test is used in conjunction with the pooled method for observations with a test probability of more than 5% or a test statistic smaller than the table statistic. For observations having a test probability of less than 5%, the panel technique is utilized.

### 4.1. Descriptive statistics

The variables COE and CGN have mean values of 0.170 and 1.198, respectively, while the minimum and maximum values for these variables are (1.300) and 0.500; 1 and 2, respectively. The standard deviations for COE and CGN are 0.840 and 0.457, respectively. The mean values for Lever, FSIZ, NSG, OCF, PPAE, INV, AR, and CAG are 0.359, 692.999.766, 0.182, 0.917, 2.474, 0.372, 3.689, and 0.973, respectively, while the minimum and maximum values are 0.200, 3.000, (0.513), (0.218), 0.011, 0.039, 0.069, 0.970, and 0.600, 1.546,149, 2.276, 7.214, and 370.170, respectively. The standard deviation values are 0.197, 510.799.463, 0.810, 2.237, 110.253, 6.742, 10.388, and 0.002, respectively.
4.2. The findings of statistical testing on the research hypothesis

The panel approach is accomplished by utilizing the random and fixed effect models. For discoveries with a test probability of less than 5%, the Hausman test will be employed to assess the shape of a model. For individual data with a test probability greater than 5%, a fixed effect model is utilized.

The study's control variables show that CGIN, Lever, FSIZ, NSG, OCF, PPAE, INV, AR, and CAG had an insignificant connection with capital cost of equity, with values of 0.300, 0.350, 0.887, 0.617, 0.332, 0.330, 0.513, and 0.698, respectively. In reality, increasing loans reduces the pace of financial supply (capital). Furthermore, the increase in sales resulted in a decrease in the rate of the capital cost of equity.

The study's findings show that company size (FSIZ), operational cash flow (OCF), and inventory (INV) all have a negative and significant influence on the capital cost of equity. In reality, the rate of capital cost is lower in smaller enterprises, and by lowering operational cash, the rate of capital cost is raised. Furthermore, a decrease in product inventory might have a favorable effect on the rate of capital cost. This study found no significant association between other control factors and the rate of capital cost.

Table 1. Descriptive statistics of the main variables of the research models

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Median</th>
<th>Standard deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>COE</td>
<td>0.170</td>
<td>0.480</td>
<td>0.840</td>
<td>(1.300)</td>
<td>1</td>
</tr>
<tr>
<td>CGIN</td>
<td>1.198</td>
<td>1.230</td>
<td>0.457</td>
<td>0.500</td>
<td>2</td>
</tr>
<tr>
<td>Lever</td>
<td>0.359</td>
<td>0.410</td>
<td>0.197</td>
<td>0.200</td>
<td>0.600</td>
</tr>
<tr>
<td>FSIZ</td>
<td>692.997,766</td>
<td>859.353,885</td>
<td>510.799,463</td>
<td>3,000</td>
<td>1,546,149</td>
</tr>
<tr>
<td>NSG</td>
<td>0.182</td>
<td>0.079</td>
<td>0.810</td>
<td>0.513</td>
<td>2.276</td>
</tr>
<tr>
<td>OCF</td>
<td>0.317</td>
<td>0.223</td>
<td>2.237</td>
<td>0.216</td>
<td>7.214</td>
</tr>
<tr>
<td>PPAE</td>
<td>2.474</td>
<td>2.499</td>
<td>110.233</td>
<td>0.011</td>
<td>370.170</td>
</tr>
<tr>
<td>INV</td>
<td>0.372</td>
<td>0.402</td>
<td>6.742</td>
<td>0.039</td>
<td>22.790</td>
</tr>
<tr>
<td>AR</td>
<td>3.689</td>
<td>0.389</td>
<td>10.388</td>
<td>0.080</td>
<td>33.250</td>
</tr>
<tr>
<td>CAG</td>
<td>0.973</td>
<td>0.973</td>
<td>0.002</td>
<td>0.070</td>
<td>0.976</td>
</tr>
</tbody>
</table>

The study's control variables revealed that CGIN, Lever, FSIZ, NSG, OCF, PPAE, INV, AR, and CAG had an insignificant relationship with capital cost of equity, with values of 0.300, 0.350, 0.887, 0.617, 0.332, 0.330, 0.513, and 0.698, respectively. In practice, increasing loans slows the rate of financial supply (capital). Also, the growth in sales led to a fall in the rate of the capital cost of equity.

The study's results demonstrate that firm size (FSIZ), operational cash flow (OCF), and inventory (INV) all have a negative and substantial effect on the capital cost of equity. In fact, the rate of capital cost is lower in smaller firms, and by cutting operating cash, the rate of capital cost is boosted. Also, a reduction in product inventory may have a positive influence on the rate of capital cost. This analysis discovered no significant relationship between other control parameters and the rate of capital expense.

5. CONCLUSION

Corporate governance standards are critical for all businesses because they increase investor (Alzubi & Bani-Hani, 2021; Odat et al., 2021), debtor, and stakeholder confidence in organizational operations. Comprehensive data were utilized in this research to examine and assess the link between corporate governance and the cost of equity. Today's regulators, policymakers, industry leaders, and management rightly see good corporate governance as their most critical duty.
On the other hand, the cost of equity is the axis around which a company's development and expansion potential spin. Formally investigating the link between these critical parts of the economy has been relevant and appropriate. This is the first research which tries to determine the influence of corporate governance measures on the cost of equity capital in the UAE setting. As a result, this paper investigates the link between corporate governance and the cost of equity capital in UAE stock markets. The concept that corporate governance structures might be a useful option in addressing the agency issue among stakeholders can be reflected further in developing economies. Firms minimize their capital expenses in order to increase their value. The capital cost is the rate of return on investment that a corporation must accomplish in order to fulfill the demands of those investors who supply funds for the firm’s long-term needs. Companies should be aware of the elements that influence capital expenses. According to hypothesis testing results, corporate governance has a negative and significant influence on the rate of capital cost. Corporate governance efficiency can lower the rate of capital expense.

This study suggests that eliminating information asymmetry and agency conflict will result in the implementation of a strong corporate governance framework. As a result, the quality of financial reporting will increase, and the capital market will be strengthened in order to attract financial suppliers and investors.

According to the conclusions of this paper, corporate governance structures are critical in influencing the capital cost rate. We advise business executives to evaluate the negative impact of corporate governance on the rate of capital cost. As a result, if they want to cut the capital cost rate, they need to take strong actions to develop a corporate governance framework. Based on the research results, this analysis, as well as the literature evaluated for this study demonstrates that there is an urgent need to create and successfully implement rules for improved corporate governance. Better corporate governance will lower the cost of equity, resulting in more investment in new projects and more overall economic growth.

Overall, this analysis demonstrates that, following agency theory, corporate governance may minimize the cost of equality by reducing agency difficulties and information asymmetry. Regardless of the results, the current study has some limitations, which may offer possibilities for further research. This research exclusively looks at enterprises in the UAE, which has a very small capital market. Future research might look at the influence of corporate governance on a firm’s cost of equity in various investor protection frameworks. Future research may also look at the impact of corporate governance in countries with merging market economies, where corporate governance has received more attention. Perhaps a better grasp of corporate governance’s value-generating function from the standpoint of the cost of equity can be formed in such markets.

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