CORPORATE GOVERNANCE AND CORPORATE PERFORMANCE: EVIDENCE FROM KUWAIT

Bader Al-Shammari [a*] ***and Waleed Al-Sultan*** [b]

Abstract

An increasing number of recent corporate scandals and failures worldwide give rise to interest in the corporate governance structure in the performance of companies. This study investigates the relationship between corporate governance characteristics and performance of 66 non-financial companies listed on the Kuwait Stock Exchange (KSE) during the years 2004-2007. The findings of this study show that corporate governance characteristics such as board size, role duality, and less concentrated share ownership were positively associated with market performance, whereas only board size and role duality were positively related to accounting performance. The result is robust with respect to controls for company size, leverage, and industry.

Keywords: corporate governance, corporate performance, board size, board composition, role duality, multiple directorships, ROE, Tobin Q, Kuwait.

[a] *Assistant Professor at the Public Authority for Applied Education and Training, Kuwait*
[b] *Associate Professor at the Public Authority for Applied Education and Training, Kuwait*
**Contact author. Bader Al-Shammari, Accounting Department, College of Business Studies, Public Authority for Applied Education and Training, Kuwait, P.O.Box 43197, Code 32046, Hawally, KUWAIT. Telephone +965 2 2647 068 Fax +965 2 2647 068. Email ba.alshammari@paaet.edu.kw*
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1 Introduction

An agency relationship arises from the contract between a company's shareholders (the principals) and its managers (the agents). Under this contract, the shareholders delegate decision-making authority to the managers. In this situation, characterized by a separation of ownership and management function and presence of asymmetric information, a conflict of interest can arise between the shareholders and managers because their interests and objectives differ, and there is no reason to believe that the managers always will act in the shareholders' best interest. For example, managers might be motivated to adopt investment and financing policies that benefit themselves but impair the interests of shareholders (Jensen and Meckling, 1976). To mitigate agency conflicts and reduce their costs, various measures have been suggested (Jensen and Meckling, 1976). One is corporate governance, which is concerned with ways of bringing the interests of shareholders and managers into line and to ensure that companies are run for the benefits of shareholders (Mayer, 1997).

The Cadbury Committee is the key committee that investigates UK listed companies in 1992 and it describes corporate governance as "the system by which companies are directed and controlled." Hawley and Williams (1997) reviewed a literature of corporate governance in the U.S. and define corporate governance as "a relationship between a company's management, its board, its shareholders, and other stakeholders through enhanced performance." MacMillan and Downing (1999) define corporate governance as "the mechanisms by which companies are controlled and directed." They also point out that corporate governance is a complex issue that influences various factors, including manager relations, board structure and practices, and capital structure.

Prior studies showed that good corporate governance helps achieve the best decision making performance and encourages boards of directors to plans and support the objectives of companies efficiently in the long term. In addition, good corporate governance increases confidence in companies and protects them from changes in market and share prices. Good corporate governance also could lead to better capital valuation and developing companies' ability to reach capital markets (Claessens, Djankov, Fan, and Lang, 2002; Judge, Naoumova, and Koutzevol, 2003). The recent survey of corporate governance in Organization of Economic Cooperation and Development (OECD) countries indicates that corporate governance is an important determinant of performance (OECD, 2004).

This study investigates the relationship between corporate governance characteristics and performance of non-financial companies listed on the Kuwait Stock Exchange (KSE) between 2004 and 2007. Kuwait offers a particularly appropriate context for the study

for three reasons. First, the KSE is an economic indicator of the country with a market capitalization of 63 billion Kuwaiti Dinars (more than US $193 billion) as of 31 December 2007, which corresponds to approximately 26 percent of the Gross Domestic Product of the country (AMF, 2007). Second, the business environment is characterized by a high concentration of ownership in Kuwait. For example, the mean shareholdings of the largest shareholders of companies in this study are 55 percent, which implies that protection of minority shareholders may be problematic. Third, the October 2008 crisis involving Kuwait's Gulf Bank raised a call for new corporate governance principles by a great number of members of parliament (MPs), the Chamber of Commerce, and the Union of Investment Companies (UIC). This crisis resulted when the bank's board of directors was responsible for using the capital and clients' deposits in risky derivatives.

This study contributes to the body of knowledge in several ways: First, it extends studies that link corporate governance characteristics and corporate performance in a developing country such as Kuwait. Prior studies have been limited primarily to developed countries or large emerging economies; small developing economies such as Kuwait's have been neglected. Therefore, this study was undertaken with the intention of filling the gap. Second, this study seeks to explore whether the corporate governance characteristics associated with performance in Kuwait are similar to or different from those found in studies in other countries.

This study is important to understand corporate governance characteristics in Kuwait and to explore whether these characteristics influence performance of Kuwaiti listed companies. This study may enable companies to make appropriate choices about board appointments and best governance to create and improve performance. In Kuwait, regulators play an important role in protecting investors and keeping confidence in the economy. They may mandate corporate governance code or adopt the Organization of Economic Cooperation and Development (OECD) governance principles as a starting point in Kuwait. This study also is important because there is a growing international recognition of the importance of corporate governance structure for a company's success, given that several organizations and countries have issued guidelines and recommendation for best governance practices and board composition. For example, the OECD's best governance practices issued in 1999 have become an international benchmark for regulators, investors, and companies worldwide.

The results of multivariate analysis of the relationship between corporate governance and performance indicate a significant association between market performance and board size, role duality, ownership concentration, company size, leverage, and industry memberships. In addition, the results indicate a significant association between accounting performance and board size, role duality, and company size. Other corporate governance characteristics do not explain variation in performance. The differences between some of the results of our study and results found in studies of other countries contribute to the corporate governance debate and indicate that corporate governance structures designed to enhance corporate performance cannot be adopted blindly but should take into account the unique business environment that exists in the country concerned.

The reminder of the study is organized as follows. The next section discusses corporate governance in Kuwait. Section three reviews the relevant literature on the relationship between corporate governance characteristics and corporate performance. The hypotheses then are developed in section four. Section five describes the data and the empirical method of the study. The results then are presented and interpreted in section six. The study ends with summary and conclusion, including limitation and avenues for further research in section seven.

2 Corporate governance in Kuwait

There have been numerous initiatives to address the issue of corporate governance in Kuwait. Recently, the Chamber of Commerce and the Union Investment Companies have organized conferences, seminars, and forums to address corporate governance in order to encourage the government to issue corporate governance a code regulating corporate governance.

Only two governmental bodies are concerned with the principles of corporate governance in Kuwait - the Ministry of Commerce and Industry and the KSE. The Ministry promulgated a number of corporate governance principles in the company law No. 15 of 1960 and the KSE law issued an Amiri Decree of 14/8/1983 that includes only two corporate governance principles, all stress on protecting investors and users of financial reporting.

There are 12 provisions concerning corporate governance practices in the company law. Specifically, these provisions concerns the election of boards of directors and their term in office, the vacancy of a board member, the minimum number of meetings of a board of directors in the financial year, and the liability of the board of directors to the company and shareholders. The company law stipulates a minimum of three directors for each company with no ceiling on the maximum number, and the term of office is not more than three years, renewable.

In terms of board composition, the company law provides for the appointment of one or more executive directors by allowing directors to hold concurrently with the office of director any other office or place in the company, but there is no provision for the balance of executives and non-executive directors. In terms of board structure based on duality or otherwise of the chief executive officer's role on the board and in the company itself, the company law does not prevent the appointment of the same individual as chairman of the

board of directors and CEO. The company law also does not prohibit multiple directorships nor allow a person to be a director of more than three joint stock companies or CEO or board chairman for more than one joint stock company. The law is silent on creating an audit committee or any other committee.

The KSE law is silent on all of the above provisions. The law only requires that all members of a company's board of directors inform the stock exchange administration of the number of shares owned by the director within one month from the date of their appointment to the board of directors. However, such information is not published only the stock market is informed of it. The law also stipulates that no members of the board of directors of a company may have any direct or indirect interest in contracts and transactions that are concluded with or for the company, unless they have been granted an authorization from the general meeting.

These provisions have not been amended since issuance of the company law in 1960 and stock exchange law in 1983. This study has been undertaken to assess the impact, if any, of these provisions on corporate performance.

3 Literature review

The extant literature on corporate governance, which mostly is about US companies, considers the relationship between corporate governance characteristics and performance. A substantial stream of literature on corporate governance goes back to the argument of Berle and Means (1932) that corporate managers lack accountability and therefore companies need to establish monitoring systems to oversee them. Such an argument was propagated further by Jensen and Meckling (1976). Review of extant literature shows that a large number of studies investigated the relationship between various corporate governance characteristics and corporate performance. Most of these studies focus on such corporate governance characteristics as board size, board composition (executive versus non-executive), role duality, multiple directorships, and ownership concentration. Table 1 summarizes a number of these studies, which concentrate on developed and emerging large economies.

These studies revealed mixed results for the relationship between corporate governance characteristics and corporate performance. Dalton, Daily, Ellestrand, and Johnson (1998) reviewed 54 empirical studies of board composition and 31 empirical studies of board role duality and their relationship to corporate performance. Dalton, Daily, Johnson, and Ellestrand (1999) reviewed 33 empirical studies of board size and its relationship with corporate performance. Both studies found that results were mixed, which they explained by differences in the theoretical perspective applied, selected research methodologies, and measurement of performance. More recently, Rhoades, Rechner, and Sudramurthy (2000) reviewed 37 studies of board composition and board size and their relationship with corporate performance, also with mixed results.

The review of the literature shows that most prior studies of the relationship between corporate governance characteristics and performance were limited to developed countries and large emerging economies. To the best of the authors' knowledge, no study has focused on the relationship between corporate governance characteristics and performance in Kuwait. This study will fill that gap.

4 Hypotheses development

Based on the findings of prior theoretical and empirical research, the special characteristics of business environment in Kuwait, and data availability, five corporate governance characteristics are examined for their possible impact on corporate performance. These characteristics are board size, role duality, board composition, multiple directorship, and ownership concentration. Each of these characteristics is discussed and relevant hypotheses developed in the following section.

Size of the board

There has been continued debate on the influence of board size on corporate performance from different perspectives (Jensen, 1993; Dalton et al., 1999; Hermalin and Weisbach, 2003). Some scholars have suggested that larger boards are better for improving corporate performance (e.g., Klein, 1998; Adam and Mehran, 2003; Anderson, Mansi, and Reeb, 2004; Coles, Daniel, and Naveen, 2008) while others have suggested that smaller boards enhance corporate performance (e.g., O'Reilly, Caldwell, and Barnett, 1989; Lipton and Lorsch, 1992; Jensen, 1993).

According to agency theory perspective, the number of directors on the board has an effect on the extent of a company's monitoring, controlling, and decision making. There is a view that larger boards are better for corporate performance because they allow for more effective monitoring by reducing the domination of the CEO within the board, with the result of reducing agency costs (Adam and Mehran, 2003), allowing for representation of different shareholders on the board (Anderson et al., 2004), protecting shareholders interests, and having a greater range of expertise and resources to help make better decisions (Dalton et al., 1999; Coles et al., 2008). However, other scholars have advocates for smaller boards on the grounds of easy co-ordination, cohesiveness, and communication (Lipton and Lorsch, 1992; Jensen, 1993). It has been argued that when a board gets too big, it becomes difficult to coordinate and have interpersonal communication and encourages free riding and poses other problems (O'Reilly et al., 1989; Lipton and Lorsch, 1992).

Table 1. Summary of a number of empirical studies investigating the relationship between corporate governance characteristics and performance

Study	Country	Corporate governance characteristics
Baysinger and Butler (1985)	US	board composition*
Hermalin and Weisback (1991)	US	Board composition
Boyd (1995)	US	Role duality (*)
Mehran (1995)	US	Board composition
Peel and O'Donnell (1995)	UK	Role duality*
Dahya, Lonie and Power (1996)	UK	Role duality*
Agrawal and Knoeber (1996)	US	Board size, board composition-*, ownership concentration-*
Yermack (1996)	US	Board size (-*), Board composition (-*)
Vafeas and Theodorou (1998)	UK	Role duality
Daily and Dalton (1998)	US	board composition, role duality
Eisenberg, Sundgren and Wells (1998)	Finland	Board size (-*)
Bhagat and Black (1999)	US	Board size, board composition, role duality,
Weir, Laing, and McKnigh (2002)	UK	board composition
Kiel and Nicholson (2003)	Australia	Board size, multiple directorships*
Abdullah (2004)	Malaysia	Board composition, Role duality*
Bonn (2004)	Australia	Board size, Board composition*
Chiang (2005)	Taiwan	Board size*, ownership concentration*, board composition*
Haniffa and Hudaib (2006)	Malaysia	Board size (-*), board composition, role duality, multiple directorship (-*), ownership concentration (-*)
Ben-Amar and Andre (2006)	Canada	board composition*
Ghosh (2006)	India	Board size*-, board composition
Elsayed (2007)	Egypt	Board size and role duality
Kyereboah-Coleman, Adjasi, and Abor (2007)	Ghana	Board size, board composition (*), role duality
Van, Postma, and Sterken (2008)	Netherlands	Board size, board composition*-

Empirical studies that examined the association between board size and corporate performance yielded inconsistent results. There was a negative relationship between board size and corporate performance in studies in the US (Yermack, 1996), Finland (Eisenberg et al., 1998), India (Ghosh, 2006), and Singapore and Malaysia (Mak and Yuanto, 2003). However, Bhagat and Black (1999) found no relationship between board size and corporate performance in the US; Van, Postman, and Sterken (2008) reported no such relationship in the Netherlands; and Bonn (2004) and Elsayed (2007) found no such relationship in Australia and Egypt, respectively. But Chiang (2005) found a positive relationship in Taiwan.

In Kuwait, company law sets a minimum of three directors for each company but no maximum number. Larger boards may improve corporate performance because they are more likely to have a greater range of expertise and resources to help make better decisions and enhance performance. On the other hand, smaller boards may be better for corporate performance because they are easier to coordinate and communicate and for the CEO to control. These arguments show that board size does have some impact on performance. Accordingly, it is hypothesized that:

H1: There is a significant relationship between board size and corporate performance.

Role duality

Role or Chief Executive Officer (CEO) duality refers to a situation in which a single individual serves as both the CEO and chairman of the board. This creates a unified leadership structure. Lipton and Lorsch (1992), Worrell, Nemec, and Davidson (1997), and Carlsson (2001) supported the agency theory with respect to the separation of the two positions, as such separation improves the board's effectiveness in management monitoring that also could lead to improved performance. They contend that CEO duality makes the board inadequate and powerless in the face of a strong CEO. According to Lechem (2002) the board chair plays a critical role in decision making and effective monitoring of the management, headed by the CEO. It also is considered an impediment to the board's flexibility in performing one of its core duties of replacing a poorly performing CEO (Goyal and Park, 2002) and is associated with excessive compensation (Core, Holthausen, and Larcker, 1999). As a consequence, CEO duality is likely to affect corporate performance adversely. Daily and Dalton (1997) state that duality often is a sign of strong CEO power that, combined with a lack of monitoring of board decisions, may have negative consequences for corporate performance. However, supporters of CEO duality (Donaldson and Davis, 1991; Charan, 1998) have argued against separation of chair and CEO positions, on the ground that the company will not have the unified focuses of its energies necessary to realize its goals. They assert that company performance can be enhanced when the CEO had full authority over his or her company by serving in the position of chair, as well.

Previous empirical studies on the issue of the relationship between role or CEO duality and performance have yielded mixed results. There is some evidence that companies that have duality perform better than those with separate leadership (Donaldson and Davis, 1991; Boyd, 1995; Kiel and Nicholson, 2003). Similarly, Tian and Lau (2001) found a positive relationship between duality and performance for Chinese listed companies. But, there also is conflicting evidence from the UK. Dahaya et al. (1996) found positive evidence for splitting the roles of chairman and CEO whereas Dalton et al.(1998) found no significant performance differences between the companies with CEO duality and those without.

In Kuwait, given that company law does not prevent the appointment of the same individual as a chairman of the board of directors and CEO, a number of listed companies are controlled by the government and its agencies, institutional investors and or a few families and their members occupied the CEO and chairman of the board positions in their companies. This may affect the performance of companies but the effect is unknown. Accordingly, it is hypothesized that:

H2: There is a significant relationship between CEO duality and corporate performance.

Board composition

This variable relates to the proportion of non-executive directors to the total number of directors on the board. Weir and Laing (2001) indicated that boards include two different types of directors: executive (insider) and non-executive (outsider) directors. Executive directors are full-time employees of the company and should have clearly defined roles and responsibilities as they manage the day-to-day operations, while non-executive directors are not employees of the company or affiliated with it in any other way.

It has been suggested that boards dominated by non-executive directors may help to alleviate the agency problem by monitoring and controlling the opportunistic behavior of management to ensure that they pursue shareholders' interests (Jensen and Meckling, 1976). Pearce and Zahra (1992) argued that boards dominated by non-executive directors may influence the quality of directors' deliberations and decisions and provide strategic direction and improvement in performance. On the other hand, a higher proportion of non-executive directors on the board may be detrimental to companies because they may lack real independence and awareness of their responsibilities, and they may not have the appropriate qualifications and experience (Baysinger and Butler, 1985).

Empirical evidence was mixed on the performance of companies based on the proportion of non-executive directors to the total number of directors on the board. Millstein and MacAvoy (1998) found US companies with a higher proportion of non-executive directors have a stronger performance than those with a higher proportion of executive directors. In contrast, Agrawal and Knoeber (1996) found a negative relationship between non-executive directors and corporate performance by US companies. Van et al. (2008) found a negative association in the Netherlands. Baysinger and Butler (1985), Mehran (1995), and Klein (1998) reported insignificant relationships between the proportion of non-executive directors and corporate performance. Hermalin and Weisbach (1991) in the US and Weir et al. (2002) in the UK found no significant relationship between the proportion of non-executive directors and performance, as did Ghosh (2006) in India.

In Kuwait, company law left determining the proportion of non-executive directors to the board of directors, as there is no provision for the balance of executives and non-executives directors. It can be argued that a board with a higher proportion of non-executive directors is more likely seen to monitor management and to limit the opportunistic behavior of the CEO than a board dominated by executive directors. On the other hand, boards dominated by non-executive directors may affect performance due to a lack of awareness of their responsibilities and appropriate qualifications and experience. Since prior studies indicated inconsistent results concerning the association between board composition (proportion of non-executive directors) and performance, it is hypothesized that:

H3: There is a significant relationship between the proportion of non-executive directors on the board and corporate performance.

Multiple directorships

Multiple directorships refers to the situation in which directors sit on more than one board. Multiple directorships also are defined as interlocking directors or elite directorships in the corporate governance literature. Several reasons have been suggested for the advantages of a higher proportion of multiple directorships on the board for better performance. Firstly, persons with multiple directorships could provide essential information relating to new policies, trade secrets, and practices among companies that could lead to better performance (Haunschild and Beckman, 1998). Nisbet and Ross (1980) indicated that information gained via such a mechanism is perceived as more influential and trustworthy compared to other sources. Secondly, such persons may have the opportunity to compare management policy and practices among companies and provide insights into how other companies pursue new approaches to business, leading to better performance (Turnbull, 1997). Thirdly, they may expose different management styles and monitoring behavior that could lead to better performance (Ferris, Jagannathan, and Pritchard, 2003).

However, opponents of multiple directorships pointed out a negative or no effect on performance. They argue that persons with multiple directorships may not have the capacity to carry out properly the obligations required of each directorship, making them incapable of monitoring the management of multiple companies effectively, which, in turn, affects their performance because they may spread their time and attention too thinly among their companies (Kiel and Nicholson, 2006). It also is argued that directors holding multiple directorships also may be too busy to carry out their monitoring and advisory role and, hence, be more likely to be detrimental to corporate performance (Mizruchi and Stearns, 1988).

Empirical studies that have examined the association between multiple directorships and corporate performance reported mixed results. Kiel and Nicholson (2006) found no relationship between holding multiple directorships and corporate performance in Australia, whereas Haniffa and Hudaib (2006) reported negative association in Malaysia. Boyd (1990) and Mizruchi and Stearns (1988) found that companies with higher proportions of multiple directorships had better performance in US.

As a number of Kuwaiti listed companies are controlled by the government and its agencies, institutional investors, and or a few families, multiple directorships are more common. This may enhance corporate performance because these directors are more likely to be exposed to different policies and ideas and therefore gain more knowledge of business activities. However, multiple directorships may have negative effects on performance due to less commitment of the directors toward the management because they are too busy attending various board meetings. These arguments lead to our next hypothesis:

H4: There is a significant relationship between the proportion of directors on the board with multiple directorships and corporate performance.

Ownership concentration

Ownership concentration has been suggested to be relevant in explaining variations in corporate performance. In agency theory, as ownership separates from management, corporate value may decrease due to growing conflicts of interest between shareholders and management (Jensen and Meckling, 1976). Conversely, as ownership is more concentrated in a few shareholders, the conflicts between the two is mitigated and there will be greater incentives to align management and shareholders' interests, which could lead to better performance and benefit minority shareholders. On the other hand, concentrated ownership also can affect minority shareholders because the controlling owners can adopt investment

and financial policies leading to expropriation of the company's assets, thus affecting performance.

Empirical studies investigating the association between ownership concentration and corporate performance yielded inconclusive results. Wiwattanakantang (2001) and Lins (2003) found that ownership concentration is positively related to corporate performance in Thailand and Asia. Xu and Wang (1999) also found a positive effect on the performance of Chinese listed companies and Joh (2003) reported the same in Korea. However, Haniffa and Hudaib (2006) reported negative relationship in Malaysia.

In Kuwait, according to law No. 2 of 1999, shareholders in listed companies are required to publish their share ownership when it reaches at least 5 percent of the outstanding shares of a company. It appears that three shareholders groups typically have substantial ownership in companies listed on the KSE (Al-Shammari, Brown, and Tarca, 2008). These groups are the government and its agencies, institutional investors, and dominant families. One can expect that there are greater incentives to align management and shareholders' interests, which could lead to better performance and benefit minority shareholders. However, these groups of shareholders are more likely to cooperate with the management, as suggested by the conflicts of interest hypothesis, but are less likely effective to be in monitoring management, leading to poor corporate performance. These arguments lead to the following hypothesis:

H5: There is a significant relationship between shareholdings held by shareholders that who own at least 5 percent of the shares and corporate performance.

Control variables

In this study, three possible variables were included as control variables since corporate performance may be affected by other variables other than corporate governance characteristics. These variables are company size, leverage, and industry memberships.

It can be argued that larger companies are more likely to perform better than smaller companies because they more likely are less risky because of their larger assets and the fact that they typically are multiproduct business entities operating in several geographical areas and divisions. However, smaller companies are more creative, innovative and change more readily to enhance performance (Hannan and Freeman, 1989). Larger companies are more likely to be exposed to the scrutiny of financial analysts and therefore have a greater incentive to performance well (Haniffa and Hudaib, 2006). Results of the empirical studies show inconsistent results. Haniffa and Hudaib (2006) found a negative association between company size and performance, suggesting that smaller companies have better performance in Malaysia. Weir et al. (2002) found the same results in the UK. However, Elsayed (2007) reported no such relationship in Egypt. Thus, the above arguments and the empirical studies lead us to develop the following hypothesis:

H6: There is a significant relationship between company size and corporate performance.

Leverage has been shown to be relevant to corporate performance. Debt financing may raise the pressure on managers to perform well because it reduces the moral hazard behavior by reducing free cash flow at the disposal of managers (Jensen, 1986). Accordingly, companies with higher leverage are more likely to improve their performance. On the other hand, higher leverage may be negatively associated with performance because dept financing can increase conflicts of interests over risk and return between shareholders and debtholders (Jensen and Meckling, 1976; Myers, 1977). Results of empirical studies reported inconsistent results. Weir et al. (2002) found that lower leverage led to better performance in the UK whereas Haniffa and Hudaib (2006) reported a positive relationship between the level of leverage and corporate performance in Malaysia. Consequently, it is hypothesized that:

H7: There is a significant relationship between the level of leverage and corporate performance.

Industry membership is included in order to account for any otherwise uncontrolled industry-specific factors that may affect corporate performance. Industry membership may capture the sensitivity of certain industries to changes in growth opportunities, concentrated competitors, and market stability or other macroeconomic factors (Coles, McWilliams, and Sen, 2001; Haniffa and Hudaib, 2006). Schmalensee (1985) and Haniffa and Hudaib (2006) reported that industry membership has an affect on performance, and Elsayed (2007) also reported an industry effect in Egypt. Accordingly, it is hypothesized that:

H8: There is a significant relationship between industry memberships and corporate performance.

5 Research methods

This section describes the research method of the study including sample description and data collection.

Sample and data

The sample for the study was drawn from companies listed on the KSE. Listed companies are selected because these are the top companies in Kuwait and thus are likely to possess greatest potential to attract and employ skilled and competent individuals on the boards of directors. These companies have good access to capital and other resources necessary not only for survival but also for improving their performance and competitive position. The 2004 *Companies Guide* published by the KSE revealed that, on 31 December 2004, a total of 180 companies (financial and non-financial) were listed on the stock exchange. There were 91 financial and insurance companies that were excluded from the study for three reasons. First,

financial companies have different regulatory requirements that make them non-comparable with non-financial companies. Second, financial companies have different operational structures. Financial companies have a high degree of leverage that makes them outliers. Third, it is standard in the empirical corporate governance literature to exclude financial companies, as many variables are not comparable with non-financial companies. This leaves us with 89 companies. Fourteen companies were excluded because their financial year does not end in December. In this study, December year-ends are used to ensure that all companies are subject to similar market conditions. The full data set for corporate governance variables are not available for nine companies, and these also are excluded from the sample. This leaves us with the final sample of 66 companies.

This study investigates the association between corporate governance characteristics and corporate performance for the period 2004-2007. The time frame for the study stretches over this period to allow some longitudinal to the data. Since this study looks across four years, there was a total of 264 observations for 66 companies.

Information on the research variables was extracted mainly from *Companies Guide* published by the KSE for 2004-2007, which contains information regarding the board of directors, principal activities, share distributions and financial data. Information on board size, role duality, board composition, ownership concentration and control variables was extracted from the *Companies Guide*. Multiple directorships are not provided directly in any of the sources. Therefore, we created a dataset by listing the names of all directors and their affiliated companies, sorted the data by name, and counted the number of directorships held by each director.

The dependent variable (corporate performance)

The dependent variable is corporate performance. There has been debate regarding what constitute corporate performance (e.g., Erhardt, Werbel, and Shrader, 2003; Kiel and Nicholson, 2003). Corporate performance has been measured by using two broad sets: accounting-based measures and market-based measures (e.g., Boyd, 1995; Yermack, 1996; Bhagat and Black, 1999; Elsayed, 2007). The accounting-based measures have included return on assets, return on equity, and return on investment. The market-based measures have included Tobin's Q ratio. These measures have been criticized by different researchers. For example, accounting measures were criticized for being backward looking and constrained by professional accounting standards in each country. On the other hand, market-based measures such as Tobin's Q ratio is based on the perception of investors and thus affected by their psychology and influenced by the estimates of future events, such as manipulation (Kapopoulos and Lazaretou, 2007). However, although these measures have been criticized, they have been used in most corporate governance-performance studies.

The current study uses two measures: one is an accounting-based measure and the other is a market-based measure, which is consistent with prior governance-performance studies. The accounting-based measure used in the study is return on assets (ROA) because it reflects mainly operating results rather than capital structure decisions (Carter, Simkins, and Simpson, 2003; Erhardt et al., 2003). A higher ROA indicates the management's ability to utilize companies' assets efficiently in serving shareholders' economic interests. The ROA has been used in many studies on board performance (e.g., Carter et al., 2003; Erhardt et al., 2003; Kiel and Nicholson, 2003; Haniffa and Hudaib, 2006; Kiel and Nicholson, 2006; Elsayed, 2007). The market-based measure used is Tobin's Q ratio because it is a long-term measure that takes risk and return dimensions into account (Manuel, Carol, Jerry, and Jennigs, 1996), and reflects the firm's ability to improve performance over time (Caton, Goh, and Donaldson, 2001). The higher the value of Tobin's Q, the more effective are the governance mechanisms and the better is the market's perception of the company's performance (Weir et al., 2002). This measure also has been used in previous studies on corporate performance (e.g., McConnell and Servaes, 1990; Daily and Dalton, 1998; Rhoades et al., 2000; Haniffa and Hudaib, 2006).

The independent variables

The independent variables are five corporate governance characteristics (board size, role duality, board composition, multiple directorships and ownership concentration) and three control variables (company size, leverage, and industry memberships). Table 2 summarizes the dependent and independent variables and their proxies.

Table 2. Summary of the dependent and independent variables

Variables	Acronym	Proxy
Dependent variables		
Tobin's Q	Q ratio	Ratio of the market value of shares plus total debt divided by the book value of total assets of the company
Return of assets	ROA	Earnings after Zakat and tax divided by total assets of the company
Independent variables		
Board size	BSize	Total number of directors on the board of the company
Role Duality	Dual	Dichotomous with 1 if the chairman is also Chief executive officer (CEO) of the company and 0 otherwise
Board composition	BCom	The proportion of non-executive directors to total number of directors on the board of the company
Multiple directorships	Mult	The proportion of directors on the board of the company having at least one additional directorship in another company to total number of directors on the board
Ownership concentration	TShareholders	The proportion of shares owned by shareholders that own at least 5 percent of the shares to total shares outstanding in the company
Control variables		
Company size	CSize	Natural log of total assets
Leverage	Lever	The proportion of total debt to total assets of the company
Industry memberships	Ind	
Industry 1	Ind1	Real estate. Dummy variable coded 1 = real estate company, 0 = otherwise
Industry 2	Ind2	Manufacturing. Dummy variable coded 1 = manufacturing company, 0 = otherwise
Industry 3	Ind3	Services. Dummy variable coded 1 = service company, 0 = otherwise
Industry 4	Ind4	Food. Dummy variable coded 1 = food company, 0 = otherwise
Sources of information for the dependent, independent variables, and control variables are the annual companies guide published by the KSE. Data are related to financial year-end. Zakat is defined as a religious duty (tax) charged in accordance with *Al-Quran'n Al-Karim* and levied on profits of companies. The rate of the Zakat is 2,5 percent of the net profit. According to law No. 46 of 2006, all listed companies on KSE are required to pay the Zakat every year starting from 2007.		

Statistical methods

Following previous studies, multivariate regression analysis has been used to investigate the relationship between the dependent and independents variables. Two models were used to analyze the relationship between the various corporate governance characteristics and corporate performance. Multivariate regressions for each model are conducted for each year (2004-2007) as well as for the pooled data for all four years.

Model 1:

$$Q-ratio = B_0 + B_1 BSize_j + B_2 Dual_j + B_3 BCom_j + B_4 Mult_j + B_5 TShareholders_j + B_6 CSize_j + B_7 Lever_j + B_8 Ind1_j + B_9 Ind2_j + B_{10} Ind3_j + \varepsilon_j$$

Model 2:

$$ROA = B_0 + B_1 BSize_j + B_2 Dual_j + B_3 BCom_j + B_4 Mult_j + B_5 TShareholders_j + B_6 CSize_j + B_7 Lever_j + B_8 Ind1_j + B_9 Ind2_j + B_{10} Ind3_j + \varepsilon_j$$

Where; B_0 is the intercept; the subscript j, refers to the company number, Q-ratio is the Tobin's Q-ratio (proxy for market measure of performance); ROA is the return on assets (proxy for accounting measure of performance); and ε is the error term.

Since multivariate regression is used to test the hypotheses, assumption of multicollinearity also is tested. One reason for doing this is to indicate whether multicollinearity could cause estimation problems. The Pearson correlation matrix is used to test the multicollinearity assumption.

6 Results

Table 3 shows the correlation matrix for the dependent and continuous independent variables. It indicates no multicollinearity problem since the pair-wise correlation coefficients are less than 0.80 (Gujarati, 2003).

Table 4 presents the descriptive analysis for the dependent and continuous independent variables. For the dependent variables, as shown in the table, the mean for the Q-ratio decreased over time, possibly indicating the continued decrease of companies' debt due to changes in bank's requirements. As for the ROA, it can be seen that the mean increased in 2005 and decreased in 2006. This can be attributed to the volatility of the market value growth.

For the continuous independent variables, the table shows that the average board size of Kuwaiti companies is six, with a maximum of eleven members and a minimum of three. This is inconsistent with the board size recommended by the Cadbury Committee report for board effectiveness. It recommends that the size of the board to be between eight and ten members for board effectiveness. Comparing the average size of the Kuwaiti companies' boards with other companies in different countries indicates that it is lower than US companies (average size 14 members) (Agrawal and Knoeber, 1996) and UK companies (11 members) (Guest, 2009). In terms of board composition, the mean percentages of non-executive directors on the boards for all years are above 80 percent, indicating that non-executive directors remain in the majority of Kuwaiti boards. With respect to role duality, the number of companies

Table 3. Pearson correlation coefficients matrix for the continuous independent variables

	Q-Ratio	ROA	BSize	BCom	Mult	TShareholders	CSize
ROA	0.297(**)						
Bsize	0.023	0.092					
BCom	-0.039	0.027	0.275(**)				
Mult	-0.067	-0.033	0.183(**)	0.051			
TShareholders	0.062	0.027	-0.246(**)	0.016	-0.243(**)		
CSize	-0.257(**)	-0.026	0.351(**)	0.045	0.474(**)	-0.427(**)	
Lever	0.090	0.047	0.031	-0.047	0.047	-0.188(**)	0.220(**)

** Significant at the 0.01 level (two-tailed). * Significant at the 0.05 level (two-tailed). Q-Ratio was the ratio of the market value of shares plus total debt divided by the book value of total assets of the company; ROA was measured by earnings after Zakat and tax divided by total assets of the company; BSize was measured by the total number of directors on the board of the company; BCom was the proportion of non-executive directors to total number of directors on the board of the company; Mult was the proportion of directors on the board of the company having at least one additional directorship in another company to total number of directors on the board; TShareholders was the proportion of shares owned by shareholders that own at least 5 percent of the shares to total shares outstanding in the company; CSize was measured by the total assets of the company at the year-end and Lever was the proportion of total debt to total assets of the company.

Table 4. Descriptive statistics for the dependent and independent continuous variables

	All Mean Std. Dev. Min Max N = 264	2004 Mean Std. Dev. Min Max N = 66	2005 Mean Std. Dev. Min Max N = 66	2006 Mean Std. Dev. Min Max N = 66	2007 Mean Std. Dev. Min Max N = 66
Dependent variables (Performance measure)					
Q ratio	2.111 1.968 0.57 21.28	2.908 2.409 0.80 16.33	2.559 2.730 0.94 21.28	1.522 0.665 0.64 3.76	1.456 0.587 0.57 3.60
ROA	0.106 0.134 -0.16 0.83	0.109 0.104 -0.16 0.41	0.169 0.147 -0.03 0.83	0.105 0.086 -0.16 0.33	0.095 0.067 -0.07 0.35
Independent variables					
BSize	6.39 1.694 3 11	6.33 1.722 3 11	6.44 1.684 3 10	6.38 1.717 3 10	6.39 1.691 3 11
	All Mean Std. Dev. Min Max N = 264	2004 Mean Std. Dev. Min Max N = 66	2005 Mean Std. Dev. Min Max N = 66	2006 Mean Std. Dev. Min Max N = 66	2007 Mean Std. Dev. Min Max N = 66
Dual	0.63	0.59	0.62	0.64	0.67
BCom	0.823 0.091 0.10 1.00	0.825 0.071 0.60 1.00	0.816 0.075 0.60 1.00	0.826 0.089 0.50 1.00	0.825 0.121 0.10 1.00
Mult	0.445 0.191 0.00 1.00	0.448 0.173 0.00 0.80	0.441 0.194 0.00 1.00	0.451 0.196 0.00 1.00	0.440 0.203 0.00 1.00
Tshareholders	0.551 0.203 0.11 0.95	0.552 0.204 0.14 0.95	0.557 0.204 0.14 0.95	0.544 0.205 0.11 0.95	0.551 0.203 0.14 0.95
CSize	168.36 433.88 3.00 4,367.00	85.58 131.82 3.00 649.00	148.70 315.65 3.00 2,051.00	190.00 482.09 3.00 3,476.00	250.18 627.97 4.00 4,367.00
Lever	0.329 0.280 0.01 3.44	0.293 0.202 0.01 0.72	0.372 0.429 0.03 3.44	0.315 0.215 0.02 1.00	0.294 0.207 0.02 0.76

Q-Ratio was the ratio of the market value of shares plus total debt divided by the book value of total assets of the company; ROA was measured by earnings after Zakat and tax divided by total assets of the company; BSize was measured by the total number of directors on the board of the company; Dual is a dichotomous with 1 if the chairman is also Chief executive officer (CEO) of the company and 0 otherwise; BCom was the proportion of non-executive directors to total number of directors on the board of the company; Mult was the proportion of directors on the board of the company having at least one additional directorship in another company to total number of directors on the board; TShareholders was the proportion of shares owned by shareholders that own at least 5 percent of the shares to total shares outstanding in the company; CSize was measured by the total assets of the company at the year-end, and Lever was the proportion of total debt to total assets of the company.

with role duality has increased from 59 percent in 2004 to 67 percent in 2007, and the mean for the entire four-year period is 63 percent, suggesting that role duality is common in Kuwaiti companies. Surprising, the mean percentage of directors on the boards having directorships in at least one additional company for all years and each year is above 40 percent with only one company having all of its board members with additional directorships. The average percentage of shares held by shareholders that own at least 5 percent

of the shares to total shares outstanding in the company is about 55 percent each year, indicating concentrated ownership in most Kuwaiti companies.

With respect to control variables, the mean for company size has increased over time from 85 KD million in 2004 to 250 KD million in 2007 with the mean for all years is about 168 KD million. The mean for the leverage ratio is between 29-37 percent with the mean for all years about 33 percent. For the industry membership, there were 19 real estate companies (76 observations for four years), 21 manufacturing companies (84 observations), 21 services companies (84 observations) and 5 food companies (20 observations).

Results Based on market Measure

This study is concerned with investigating the relationship between corporate governance characteristics and performance of non-financial listed companies in the KSE between 2004 and 2007. Table 5 reports the results from the regression model linking corporate governance and performance based on Tobin's Q. The *F*-value for the combined four-year period and each year is significant at the 1 percent level. The adjusted R^2 for the combined four-year period is 0.179 and for each of the four years is between 0.277 and 0.301.

Board size (BSize) is found to have a significant relationship with performance measured by market measure in 2005 and for the combined four years. This finding lends support to hypothesis 1, which predicts a significant relationship between board size and performance. The positive result supports the findings of Chiang (2005) in Taiwan and Mak and Li (2001) in Singapore, who suggest that larger boards allow for more effective monitoring by reducing the domination of the CEO within the board, resulting in reduced agency costs and having a greater range of expertise and resources to help make better decisions and enhancing performance. Role duality (Dual) is found to be associated significantly and positively with market performance in 2004 and the combined four years and hence hypothesis 2 is accepted. The results support the findings of Boyd (1995) and Dahya et al. (1996), who suggest that role duality allow for the unified focuses of energies necessary to realize the goals and hence enhance performance. The proportion of non-executive directors to total number of directors on the board (BCom) is found to have a significant relationship with performance in 2004, hence supporting hypothesis 3. The negative finding suggests that market performance is better with fewer non-executive directors on the board, as executive directors manage the day-to-day operations and therefore are aware of their responsibilities, which may enhance performance. This result is consistent with Agrawal and Knoeber (1996), Van, Postman, and Sterken (2008) Yermack (1996) and Bhagat and Black (1999). The proportion of shares held by shareholders that own at least 5 percent of shares (TShareholders) is found to have a significant relationship with the performance in 2005, 2006, 2007, and the pooled data and therefore hypothesis 5 also is not rejected. The negative result suggests that performance is better with less concentrated ownership due to growing conflicts of interest between the managements and the shareholders, and hence effective monitoring.

This finding is consistent with Haniffa and Hudaib (2006). Multiple directorships (Mult) is not significant and hence hypothesis 4 is not accepted. This result supports the arguments of Mizruchi and Stearns (1988) that multiple directorships have no effect on corporate performance because they may be busy to carry out their duties and responsibilities on the boards.

With respect to control variables, the results indicate a significant relationship between company size (CSize) and market performance in 2005, 2006, 2007, and the pooled data. The negative result supports hypothesis 6. This finding suggests that smaller companies are more creative and change more readily to enhance performance than larger companies. This result is consistent with Haniffa and Hudaib (2006) and Weir et al. (2002).

The control variable leverage is also significantly associated with market performance for the pooled data and for all years except 2007. The positive result supports hypothesis 7, therefore implying that the market perceives leverage as an effective mechanism to control management and improve performance. This finding is consistent with Haniffa and Hudaib (2006). There are significant differences between industry groups in the pooled data and for each year except 2007. This finding supports hypothesis 8. Companies in the service industry are significantly different from the food industry (represented by the constant). This implies that companies in the service industry seemed to perform better than companies in the food industry. This finding is consistent with Haniffa and Hudaib (2006) in Malaysia and Elsayed (2007) in Egypt.

Results Based on Accounting Measure

Table 6 reports the results from the regression model concerning the relationship between corporate governance characteristics and performance based on ROA. The *F*-value for the combined four-year period and each year is significant at the 1 percent level except for 2007, in which it is significant at 5 percent. The adjusted R^2 for the combined four-year period is 0.232 and for each of the four years is between 0.210 and 0.321.

The variable board size (BSize) is found to be associated significantly with accounting performance measure for the years 2005, 2006, 2007, and the pooled data in the positive direction. This result is the same direction to market performance. This implies that board size is related positively to performance irrespective of the performance measure used. Role duality (Dual) is found to be significantly related to accounting performance measure in 2004, 2005, 2007, and the pooled data. This finding also is consistent when using market performance. Board composition (BCom) is found to have a significant relationship in 2004 in a positive direction. Unlike market performance, the proportion of shares owned by shareholders that own at least 5 percent of the shares to total shares outstanding in the company (TShareholders) is found to be insignificantly related to accounting performance for each year and pooled data. This implies that ownership concentration has no effect on accounting performance. Multiple directorships (Mult) again is not significantly associated with accounting performance.

The control variable company size (CSize) is found to have significant negative relationship with accounting performance for 2004, 2005, 2006, and the pooled data. Leverage (Lever) is found to be significantly and positively associated with accounting performance in 2004 and 2005 and negatively in 2007. This result implies that the close relationship between management and banks in Kuwait made leverage an effective mechanism to control management and improve performance in 2004 and 2005. However, this mechanism may have become ineffective in 2007 because of pressure from the Kuwait Central Bank on banks and financial companies, as the central bank, which supervises banks in Kuwait, requires them to include restrictive covenants related to securing the loan in the lending agreements. The result also indicates that no industry influence on company accounting performance in the pooled data. However, there existed an industry influence in 2004 and 2006.

7 Conclusions

This study investigated the relationship between corporate governance characteristics and performance of 66 non-financial listed companies in the KSE between 2004 and 2007. Corporate governance characteristics consisted of board size, role duality, board composition, multiple directorships, and ownership concentration. Corporate performance was measured using market (Q-Ratio) and accounting (ROA) returns. In addition, three control variables (company size, leverage, and industry membership) were added to the investigation since corporate performance may be affected by variables other than corporate governance characteristics. A multivariate regression analysis was employed to test such a relationship.

The results of the multivariate analysis indicated that market performance was better with larger board size, existence of role duality, and less concentrated ownership, while accounting performance was better with only larger board size and the existence of role duality. Board size was related positively to performance, irrespective of the performance measure used. This finding suggests that larger boards have a greater range of expertise and resources to help make better decisions for enhancing performance. Although company law stipulates a minimum of three directors for each company with no maximum number, it would be best for Kuwaiti companies to enlarge their boards in order to enhance their performance. It could be appropriate to adopt the Cadbury report of the UK that recommends 8 to 11 board members for effective board.

The results indicated that role duality is common in Kuwaiti companies. It is significant when using both market and accounting performance. It allows for the unified energy focus necessary to realize the goals and hence enhance performance. Company law does not prevent role duality; therefore, it would be better for Kuwaiti companies to appoint one individual to the two offices for better performance.

Board composition does not seem to influence performance, irrespective of the measured used. This could be related to the fact that in Kuwait, most non-executive directors were selected not because of their expertise and experience but more likely for contacts. Consequently, such directors may not be able to contribute to independent monitoring and reducing agency conflicts. Therefore, it would be best for regulators to encourage companies to select those who have real independence and awareness of their responsibilities, along with relevant qualifications, expertise, and experience.

The results indicate that multiple directorships do not seem to affect performance. This supports the argument of Kiel and Nicholson (2006), who suggest that persons with multiple directorships may not have the capacity to carry out properly the obligations required of each director leading to an inability to monitor the management of multiple companies effectively because they may spread their time and attention too thinly among their companies. Therefore, this implies that multiple directorships do not add value to performance in Kuwait. Since multiple directorships are a common phenomenon in the Kuwaiti listed companies due to the fact that company law does not prohibit multiple directorships, it would be an important issue to be considered by the Ministry of Commerce in its efforts to remedy corporate governance practices.

Table 5. Regression results of Tobin's Q-Ratio on corporate governance characteristics and control variables

Independent variables	All		2004		2005		2006		2007	
BSize	0.140	*	-0.023		0.350	*	0.064		0.033	*
Dual	0.416	*	0.960	**	0.061		0.133		0.103	
BCom	-0.710		-0.503	**	0.373		0.620		-0.877	
Mult	0.706		0.931		0.225		0.048		0.208	
TShareholders	-0.529	*	0.381		-0.310	*	-0.898	**	-0.757	*
CSize	-1.190	***	-0.455		-0.965	***	-0.203	**	-0.170	**
Lever	0.863	**	0.607	**	0.410	*	0.126	*	0.009	
Industry 1 (Real Estate)	0.135		0.634		0.394		-0.078		-0.327	
Industry 2 (Manufacturing)	0.156		1.366		0.046		0.187		-0.078	
Industry 3 (Services)	0.871	*	0.315	***	0.423		0.210	*	-0.166	
Constant	1.227	***	2.667	**	1.871	**	1.433		1.906	**
Adjusted R^2	0.179		0.294		0.301		0.287		0.277	
F	4.435		3.712		2.967		2.784		2.677	
Prob. (F)	0.001		.001		0.001		0.001		0.001	
No. of companies	264		66		66		66		66	

*** Significant at the 0.01 level (two-tailed).** Significant at the 0.05 level (two-tailed), * Significant at the 0.10 level (two-tailed). Q-Ratio was the ratio of the market value of shares plus total debt divided by the book value of total assets of the company; BSize was measured by the total number of directors on the board of the company; Dual is a dichotomous with 1 if the chairman is also Chief executive officer (CEO) of the company and 0 otherwise; BCom was the proportion of non-executive directors to total number of directors on the board of the company; Mult was the proportion of directors on the board of the company having at least one additional directorship in another company to total number of directors on the board; TShareholders was the proportion of shares owned by shareholders that own at least 5 percent of the shares to total shares outstanding in the company; CSize was measured by the total assets of the company at the year-end, and Lever was the proportion of total debt to total assets of the company. For industry variables, three dummy variables were included to four industries, the results for industry 4 (food) were captured in the constant term.

Table 6. Regression results of ROA on corporate governance characteristics and control variables

Independent variables	All		2004		2005		2006		2007	
BSize	0.157	**	-0.102		0.311	**	0.135	**	0.100	*
Dual	0.247	***	0.825	*	0.102	***	0.029		0.116	**
BCom	0.332		0.142	**	0.124		-0.192		-0.024	
Mult	-0.129		-0.155		-0.011		-0.073		-0.038	
TShareholders	-0.602		0.115		-0.078		-0.101		0.023	
CSize	-0.910	*	-0.058	*	-0.627	**	-0.436	**	0.008	
Lever	0.233		0.331	**	0.108	*	-0.016		-0.123	***
Industry 1 (Real Estate)	-0.424		0.027		0.029		-0.154		0.314	
Industry 2 (Manufacturing)	0.313		0.192	*	0.024		-0.022		0.421	
Industry 3 (Services)	0.114		0.191	**	0.031		0.240	*	0.202	
Constant	1.186	**	1.169	***	1.269	**	1.273		1.171	
Adjusted R^2	0.232		0.321		0.241		0.259		0.210	
F	4.445		3.604		2.744		2.920		1.459	
Prob. (F)	0.001		0.001		0.001		0.001		0.040	
No. of companies	264		66		66		66		66	

*** Significant at the 0.01 level (two-tailed). ** Significant at the 0.05 level (two-tailed), * Significant at the 0.10 level (two-tailed). ROA was measured by Earnings after Zakat and tax divided by total assets of the company; BSize was measured by the total number of directors on the board of the company; Dual is a dichotomous with 1 if the chairman is also CEO of the company and 0 otherwise; BCom was the proportion of non-executive directors to total number of directors on the board of the company; Mult was the proportion of directors on the board of the company having at least one additional directorship in another company to total number of directors on the board; TShareholders was the proportion of shares owned by shareholders that own at least 5 percent of the shares to total shares outstanding in the company; CSize was measured by the total assets of the company at the year-end and Lever was the proportion of total debt to total assets of the company. For industry variables, three dummy variables were included to four industries, the results for industry 4 (food) were captured in the constant term.

The results based on market performance were better, with less concentrated share ownership due to growing conflicts of interest between the management and the shareholders, and hence effective monitoring. However, when analysis was considered in terms of accounting performance, no significant relationship existed. Recently, the government of Kuwait has been trying to attract investors and encourage all shareholders to play active monitoring roles. Hence, steps need to be undertaken by the Ministry of Commerce and KSE to encourage all shareholders to align the interests of management and shareholders.

The study made two important contributions. First, it extends studies that investigated the relationship between corporate governance characteristics and company performance in developing country such as Kuwait. The findings explore empirically the importance of corporate

governance structure in Kuwait, an area that has received little attention to date in Kuwait. Previous studies have been focused mainly on developed countries or large emerging economies. It seems that small developing economies such as Kuwait's are neglected. Therefore, this study was undertaken with the intention of filling the gap. Second, this study also seeks to explore whether there are differences between the corporate governance characteristics associated with performance in Kuwait and those found in other studies in different countries.

Notwithstanding the findings, this study suffers from the following limitations, which would represent potentially opportunities for further investigation. First, this study used a regression model. Future studies may investigate the relationship between performance and corporate governance characteristics using a simultaneous equations framework, similar to that used by Agrawal and Knoeber (1996). The strength of this approach is that control mechanisms are determined simultaneously (Agrawal and Knoeber, 1996). Second, although the model has explained a significant part of the variation in performance, still unexplained is a material part that represents the "noise" of the model. Data availability limited the ability to study other aspects of corporate governance variables, such as characteristics of the remuneration and nominating committees and share ownership by managers. These variables have been found to be important theoretically and empirically in other corporate governance structure studies. As information of these variables becomes available about Kuwaiti companies, the effects of such factors on performance should be examined.

In addition, future studies may want to consider the impact of share ownership held by executive and non-executive directors on performance. Third, future study also could explore the endogeneity in the determination of internal governance structure in Kuwait by using a different research method. Future research also could use structured interviews with those involved in the oversight of the governance structures within the company; this may enhance understanding of governance structures appropriate for adoption in Kuwait. Future research could extend our study by undertaking comparative studies with other Middle Eastern countries, such as members of the Gulf Cooperation Council (GCC) (Kuwait, Bahrain, Qatar, Oman, United Arab Emirates, and Saudi Arabia), as this may benefit regulators in these states in their efforts to harmonize their commercial and governance regulations in the Gulf.

The results of this study have important implications for the regulators in Kuwait in their efforts to increase the efficiency of the rapidly developing capital markets and in protecting investors and keeping confidence in the economy. They may mandate a corporate governance code or adopt the OECD corporate governance principles as a starting point in Kuwait. Kuwaiti companies may use the findings to make appropriate choices about board appointments and best governance to create and improve performance. Investors also may use the findings to understand Kuwaiti companies. Such findings may assist them to diversify their investment portfolios.

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