CORPORATE GOVERNANCE AND FIRM VALUATION IN EMERGING MARKETS: EVIDENCE FROM UAE LISTED COMPANIES IN THE MIDDLE EAST

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Abstract

There has been previous empirical research on corporate governance and board of directors which focused on attempting to find a direct relationship between internal governance variables and firm valuation. It has however also been argued that there are differences in the nature, direction, magnitude and processes of operation of this relationship between developed and developing financial markets because of differences in their respective economic, social, regulatory framework and market behaviour . This study examines this relationship in the context of the United Arab Emirates (UAE) as one of the emerging markets in order to extend evidence further beyond the western developed capital markets into the Middle East. Does the prevalence of family-ownership in the UAE for example matter to the company valuation? What about the presence of institutional ownership or ownership concentration? And do the corporate communication and disclosure scores published by the UAE Institutional Investor in cooperation with Hawkamah, The Institute for Corporate Governance; have any relationship to corporate valuation? More specifically this study, using multiple regression analysis, examines the impact of firm level internal corporate governance indicators namely board structure, ownership structure, and transparency and disclosure governance practices on the valuation of listed companies in the UAE after controlling for company size, industry, leverage, and dividend payout using Tobin's Q, Price - Earning Ratio (PER) and Price - Book Value Ratio (PBVR) as surrogates for company valuation. The results show no significant relationship between internal corporate governance indicators and company valuation when using Tobin's Q and PBR as measures of company valuation. However they reveal statistically significant links between some of the internal corporate governance indicators on the one hand and company market valuation on the other when company valuation is measured by the price earnings ratio (PER) which is one of the most common and important stock market indicators for investors. These results suggest that the company valuation measures like the price earnings ratio which explicitly reflects the financial markets assessment of the firm investment and dividend policies lead to a better correlation with internal corporate governance indicators. Moreover, the regression results indicate that the frequency of board meetings, adoption of best transparency practices and the presence of private institutional investors such as sovereign wealth funds are the most significant internal corporate governance variables in accounting for differences in company market values in the UAE. The structural aspects of the board such as size and composition turned out not to be statistically significant in their impact on company valuation.

Keywords: Corporate Governance, Company Valuation, Corporate Board, Emerging Markets, Middle East, United Arab Emirates (UAE), Abu Dhabi Stock Exchanges (ADX)

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1. Introduction

1.1 Corporate Governance

One of the preoccupations of effective corporate governance is the promotion of the attainment of high level financial performance and market valuation on behalf of the shareholders (Klapper & Love, 2004; Rajagopalan & Zhang, 2008). La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2000) argue however that emerging economies have traditionally been discounted in financial markets because of their weak governance.

This paper specifically investigates aspects of internal corporate governance as an important driver in corporate governance. Such a study may provide insights to improvements in corporate governance and possible better valuations in an emerging market economy like UAE.

In the UAE the research is specifically motivated by the UAE Securities and Commodities Authority (SCA) recommendation to address the corporate governance challenges that face the country as its opportunities for investment and growth emerge.

The exercise of corporate governance is normally associated with the structure and function of the board of directors and much of the discussion focuses on the composition of the board in regard to the role of non-executives, separate chairman and chief executives, and establishing board committees (remuneration, audit and nominating committees). A large body of empirical research has examined different board characteristics such as board size (Yermack, 1996), and the proportion of outsiders to insiders (Baysinger and Butler, 1985). Empirical research has also been carried out to analyse the conduct and processes of the board by exploring the dynamics of power, influences and the behaviour of board members and their relationship with management and mainly the CEO (Leblanc and Gillies, 2005).But not much has been investigated about the relationship between internal corporate governance and corporate valuation beyond the usual developed markets and with specific focus on emerging markets , not to talk about the UAE socio-economic environment in particular .

1.2 Importance of the Proposed Research

The study of corporate governance in UAE is important because this type of economy possibly has a number of unique governance features and issues not prevalent in more widely researched developed economies, like family-dominated ownership structures which may be associated with unique agency problems and firm valuation in the UAE. Family-run companies may also present challenges in terms of monitoring the transparency of operations in order to meet international standards of corporate governance (Jackling & Johl, 2009). The weak investor protection inherent in many MENA countries offers an opportunity for firms to differentiate themselves from the rest and send strong and credible signals to attract investors by self adopting good corporate governance practices and policies, thus partially compensating investors for the weak legal environment in which these firms operate. Klapper and Love (2004) and Durnev and Kim (2005) show that corporate governance provisions matter more in countries with weak legal protection.

In summary the objectives of this research will be:

1. To investigate the relationship between internal corporate governance variables and corporate market valuation of UAE listed companies

2. To expand the understanding of corporate governance practices in UAE listed companies and specially the transparency and disclosure practices adopted by listed firms.

The specific research questions to be addressed here are:

1. What are the internal firm level governance variables that significantly influence firm valuation of listed companies in the UAE?

2. To what extent do boards' structure variables significantly influence firm valuation in UAE listed companies?

3. To what extent do variables for ownership structure influence firm valuation in the UAE?

2. Review of the Literature

2.1. Classifications of Corporate Governance Mechanisms

A significant amount of theoretical and empirical work has been undertaken in order to describe and classify corporate governance mechanisms (Jensen and Meckling 1976; Fama and Jensen, 1983, Jensen 1986, Jensen 1993). Denis and McConnell (2003) presented the dual classification of corporate governance mechanism as (1) internal governance mechanisms including boards of directors and ownership structure and (2) external ones including the takeover market and the legal regulatory system. Farinha (2003) describing the internal disciplining mechanisms as opposed to the external disciplining mechanism, indicates that it includes large and institutional shareholders, board of directors, insider ownership, compensation packages, debt policy, and dividend policy. Shleifer and Vishny (1997), calls the two complimentary disciplining mechanisms as market oriented and large shareholder - oriented systems.

Weimer and Page (1999) focusing largely on developed markets and Rwegasira (2000) focusing on emerging markets in Africa , in different types of analyses, reach a broadly similar classification distinguishing between "market-oriented" and

"network oriented" or "institutionally- based" systems of corporate governance.

The market –based disciplining mechanism is prevalent in developed markets particularly the USA and UK where shareholding is characteristically widely spread.

In contrast, shareholding is concentrated in developing financial markets and follows a hybrid system of corporate governance suggesting that the block holders play an important role in monitoring the activities of a firm in these financial markets. Pyramidal and cross-shareholding, illiquid capital markets and ineffective regulatory authority are also features of those markets (Franks and Mayers, 1997; Allen and Gale, 2001). The regulatory and judicial framework in a developing market is rather ineffective in playing any role in improving the value of a firm.

In summary there is a broad consensus that corporate governance mechanisms can be classified into two broad categories: 1) the internal or firm-level mechanisms which focus on the contribution to governance by, inter alia, large and institutional shareholders, board of directors, insider ownership, compensation packages, debt policy, and dividend policy, and 2) the external governance mechanisms which are driven largely by the discipline imposed by the financial markets via corporate take-over market and the regulatory framework.The focus in this paper is on the internal disciplining mechanism.

2.2. Relationship between Corporate Governance and Company Valuations

According to Black, Jang, and Kim (2003), companies with better corporate governance have better operating performance than companies with poor corporate governance. They used Standard and poor's corporate governance indicators ranking, which include the structure of the board of directors, the structure of ownership, and information transparency.

Javed & Iqbal (2007) investigated whether differences in quality of firm-level governance mattered to performance in a cross section of 50 companies listed on the Karachi Stock exchange .They analysed the relationship between firm level values as measured by Tobin's Q and the total Corporate Governance Index (CGI) which had three sub indices (board, shareholding and ownership, and disclosure and transparency). The results indicate that corporate governance does matter in Pakistan.

Bai, liu, Lu & Zhang (2004) constructed an index to reflect overall level of governance practices for China listed companies. The categories in their index include four internal governance mechanisms: board of directors, executive compensation, ownership structure & financial transparency. Their results indicate better corporate governance leads to higher firm value and Chinese investors are willing to pay premium for better corporate governance.

According to Lei & Song (2004) the major areas of internal corporate governance mechanisms are board structure, executive compensation, ownership structure, conflict of interest in executives, and financial transparency. Based on these five areas, he constructed general model representing overall corporate governance in Hong Kong and ranked the listed companies accordingly.

There is evidence that broad measures of firm-level corporate governance predict higher share prices in emerging markets. This evidence comes from both single country studies (Black, 2001 in Russia, Black, Jang & Kim, 2003 in South Korea, Gompers, Ishii and Metrick, 2003 in the U.S) and multi -country studies (Durnev & Kim, 2005; Klapper and Love, 2004)

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The list of other related studies which have sought to establish the relationship between corporate governance and the performance or valuation of the firm include Immik (2000) , Beiner, Drobetz, Schmid & Zimmermann(2004) in the case of Switzerland , (Bradley, 2004) , Mitton (2001) in a cross country study of the Asia-Pacific region , Banerjee et al. (2009) in India , Brown and Caylor (2004) who looked at 2327 U.S. firms, and found that better governed firms are also more profitable more valuable and pay higher dividends, Klapper and Love (2004) who find evidence that firm-level corporate governance provisions matter more in countries with weak legal environments, Black (2001) in Russia who demonstrates that corporate governance behavior has a powerful effect on market value in a country where legal and cultural constraints on corporate behavior are weak and Kravchenko & Yusupova (2005) analysis which shows that investors tend to pay less for companies with lower level of corporate governance in Russia.

2.3 Company valuation and its measurement

In economics or finance, the term value refers to the price for which a good or object can be exchanged (exchange value or market value) and is approximated by the discounted cash flow expected to be generated by the good or asset. Some of the important measures or indicators of value a firm in the existing literature include the following

1/ Tobin's Q

Tobin's Q is defined as the ratio of the market value of assets (equity and debt) to the replacement value of assets. Tobin's Q is widely used to value a firm in both developing and developed financial markets as exemplified by MacAvoy & Millstein (2003) and Sanda, Mikailu, & Garba (2005).

2/ Market to Book Value Ratio (MBVR)

Market to book value ratio is also used to value a firm in the financial market (see: Drobetz, Schillhofer, and Zimmermann 2002) .This measure relates the market value of a firm to its book value. Higher market to book value ratio shows that a firm is in a position to generate more returns with respect to the capital invested, while a lower ratio suggests that the company is unhealthy and will not be able to create value for the shareholders by generating higher returns as suggested by Peirson, Brown, Easton (2000).

3/ Price Earnings (P/E) Ratio (PER)

PER is calculated by dividing the current market price of a share by the earnings per share. It is widely used to measure the value of a firm in developing and developed financial markets Sanda, Mikailu, and Garba (2005) Drobetz, Schillhofer, and Zimmermann (2002). And the price-earnings ratio (P/E ratio) can also be related to the theoretical valuation Discounted Dividends Model (DDM) of the firm which suggests that $P = d_1 / (k - g)$ as shown below (when either side of the equation is divided by E)

$$P/E = (d_1/E) / (k - g)$$

where

d_1 = dividend amount expected at the end of the current year and thus d_1/E is dividend payout ratio

E = Earnings per share (EPS)

k= required rate of return on this company share

P = current share market price or value

g=expected rate of growth of the firm dividends (p.a.)

The variable reflects how much investors in the market are prepared to pay for the current earnings of the firm and it can be taken as an indicator for a company's future earnings growth and value potential. It represents the market assessment of the investment and dividend policies of a firm as suggested by Morin and Jarrell (2001) and Copeland, Weston and Shastri (2005).

There is a substantial literature in support for the choice of the three measures used in this study viz. Tobin's Q, Price-Market Book Value Ratio, and Price-earnings Ratio. Bhagat and Jefferis, (1994), Gompers et al. (2003), Beiner and Schmid (2005), Morck, Shleifer & Vishny (1988) as well as Kravchenko & Yusupova (2005) employ the above market based measures in their research on corporate governance and firm performance. Sanda, Mikailu, and Garba (2005) in their study of corporate governance mechanisms and firm performance of Nigerian companies used also alternative measures of firm performance: ROA, ROE, PE ratio & Tobin's Q.

Drobetz, Schillhofer, and Zimmermann (2002) in their study 63 German stock market companies and trying to relate governance ratings to fundamental valuation measures, used measures such as dividend yield, price-earnings ratio, and market to book ratios. And finally Abdo and Fisher (2007) in their study in South Africa used three measures for the firm value, namely the annual average share price returns, market to book ratio, and price earning ratios.

Despite several weakness in both financial and market based, more and more studies now rely on market based measures. For instance, Demsetz et al. (1985) used accounting measures, but Demsetz et al. (2001) shifted to market - based measures. Banerjee et al. (2009) believe higher reliance on market based measures is justifiable because market-based measures are less susceptible to accounting manipulation or variations and they reflect investor perceptions about the firm's future prospects. Price-Earning Ratio (P/E) is a forward looking measure. It shows the premium paid by the investors to own a share on the basis of anticipated cash flow of a company (Banerjee et al. (2009)).

In the study reported herein, we undertook to measure company valuation in different ways simultaneously to test the consistency of the research results.

2.4. Internal Corporate Governance Indicators Affecting Firm Valuation

In as much as according to Rashid (2008) corporate governance in general has a positive relationship with the value of a firm in developing and developed financial markets, this study focus specifically on the internal corporate governance. And adopting the Standard and Poor's (S&P) classification of internal corporate governance indicators we put these variables into three sub-categories:1/ board and management structure and processes 2/ ownership structure and investor relations and

3/ financial transparency and information disclosure .Studies which have followed and used similar S&P corporate governance indicators include those of Black, Jang, and Kim (2003), and Javed & Iqbal (2007).

2.4.1 Board Structure Variables and Company Valuation

Board structure here focuses on the optimum size of the board, board composition, board meetings, the number of board committees that are needed, and the

board leadership structure. These are the board structural elements largely influenced by the roles the board chooses to play like it is well explained further by Carter and Lorsch (2003

2.4.1.1 Board Size:

There are two hypotheses regarding the effect of board size on corporate performance. Jensen (1993) and Lipton and Lorsch (1992) suggest that large boards can be less effective than small boards, because director free riding increase and the board becomes more symbolic and less a part of the management process. In support of this position Yermack (1996) finds an inverse relationship between firm performance and board size for US firms.

The other hypothesis is that larger boards contribute to higher firm value, because they bring together specialists from various functional areas, and thus enhance their problem solving capabilities. (Haleblian and Finkelstein, 1993). A larger board has a wider range of expertise to make better decisions for a firm and it is harder for a CEO to dominate a bigger board because the collective strength of its members is higher and can resist the irrational decisions of a CEO (Pfeffer ,1972) and Zahra & Pearce ,1989). However larger boards being usually associated with higher agency costs which impact negatively the value of the firm and smaller boards usually being more efficient in decision making as highlighted by Yermack (1996) , the likely relationship between corporate board size and corporate market value may as well be of an inverted V-shaped or as non-linear inverted U-shaped , we will however still simply hypothesize that

H1: The larger the size of the board the higher the positive impact on the company valuation.

2.4.1.2 Board Meetings

The bulk of board's work is carried out in meetings. Board meetings can therefore be used to measure the contribution by board members to ensure their full commitment and engagement in overseeing the running of the company business and monitoring management. Chidambaran, Palia & Zheng (2006) quote Vafeas (1999) and Adams, Almeida and Ferreira (2005) finding that firm value is increased when boards meet more often. Mace (1986) argues that firm performance is a function of so many different factors that it is difficult to imagine that the effect of occasional board meetings would be detectable especially in case studies.

But Charan (2005) suggests that holding more or longer meetings will not always improve board dynamics or add value, unless the board members prepare well for these meetings and the meetings themselves are well run.

Where does the UAE stand on the impact of the frequency of board meetings on corporate value? Carter and Lorsch (2003) hold that currently, there are some signs of a global convergence on around eight meetings per year. In the sample used in this study, on average only two board meetings were held per year. This is representative of current practices in UAE. In contrast the corporate governance code proposes six meeting every year, which leaves the majority of listed companies well below the threshold of good governance with regard to meetings. So, we will test if the value of UAE listed companies' has increased when they scheduled more board meetings and proceed to hypothesize here that.

H2: The higher the number of actual board meetings the higher the company valuation

2.4.1.3 Board Composition (Non Executive Directors)

The composition of the board is an important factor for its effectiveness, because of the need to build and sustain the right team, according to Carter and Lorsch (2003). With respect to board composition, we will assess how the company valuation could be affected by the representation of non-executive directors.

Weisbach (1988) is one of the earliest studies to report an association between the presence of outside directors and firm performance calculated using accounting measures. A second set of studies by Morck et al. (1988), Hermalin and Wiesbach (1991), and Bhagat and Black (2000) using Tobin's q and accounting measures to calculate firm performance suggests that there is no significant relationship between the proportion of outside directors and firm valuation.

In this case it is hypothesized that company valuation rises with a higher percentage of non-executive directors on the board and thus

H3: The higher the percentage of non-executive directors on the board the higher the company valuation

2.4.2 Ownership Structure Variables and Company Valuation

2.4.2.1 Private Institutional Ownership

The primary focus here is on the impact of institutional ownership on firm valuation, as independent outside directors with their investor's wealth at stake. Institutional investor's representative on the board can have a positive impact through their ability to discipline management as well as monitor and influence corporate performance. (Shleifer & Vishny ,1986; Maug ,1998) Other shareholders can free ride on the large shareholder's activities, because they do not bear the costs of information gathering and other process. Results of empirical research on the impact of institutional ownership and monitoring on firm's financial and marker valuation are however mixed .They include

McConnell and Servaes (1990) who find a positive relationship between firm performance as measured by Tobin's Q, and ownership by institutional investors and large block holders on the one hand and . Aqrawal and Knoeber (1996) get a negative relationship.

Maug (1998) noted that whether institutions use their ability to influence corporate decisions is in part a function of the size of their shareholdings. If shareholding by institutional investors is high, shares are less marketable and are thus held for longer periods. In this case, there is greater incentive to monitor a firm's management. However, when institutional investors hold relatively few shares in a firm, they can easily liquidate their investments if the firm perform poorly, and there have less incentive to monitor. Several studies including those of Coffee (1991), and Maug (1998) conclude that institutional investors' goal of maintaining the liquidity of their holdings and their desire for short-term profit outweighs the benefits of monitoring management in the hope of promoting higher long-term profitability. In this study we seek to test out the hypothesis that

H4: The larger the percentage of private institutional ownership the higher the company valuation.

2.4.2.2. Ownership Concentration

Ownership concentration refers to the proportion of a firm's shares owned by a given number of the largest shareholders. A high concentration of shares tends to create more pressure on managers to behave in ways that are value- maximizing. In support of this argument, Schleifer & Vishny (1997) and Morck et al. (1988) suggest that an increase in concentration will be associated with an increase in firm value, but that beyond a certain level of concentration, the relationship might be negative.

Other studies such as Renneboog (2000) reported results not totally in agreement with the hypothesis of a positive relationship. Agrawal & Knoeber (1996) reported no evidence to support the positive relationship between firm performance and ownership concentration. Holderness & Shehan (1988) find little evidence that high ownership concentration directly affects performance,

The role of majority shareholders (concentrated shareholding) is important in affecting the value of a firm. The studies conducted by Pinkowitz, Stulz, and Wiklliamson (2003) and the World Bank (2003) argue that large shareholders are mostly involved in tunnelling and suppressing the rights of minority shareholders. On the contrary, Shleifer and Vishny (1986) and Kaplan and Minton (1994) suggest that block holders play a constructive role in improving the value of a firm in developing markets as they inject the provisions of corporate governance into a firm making it more democratic.

Grossman and Hart (1982) maintain that majority shareholders also solve free rider problem. Free rider problems arise when some of the shareholders do not pay the monitoring cost and acquire benefits from the cost paid by others. Frank and Mayer (1997) support the same views and confirm that majority shareholders discipline the board by removing the underperforming directors and by preventing managers from over spending the free cash flow. These measures protect the rights of the shareholders and improve the value of a firm. Dispersed ownership is preferred in the US, UK, and Europe in order to deny any single shareholder or group privileged access to or excessive influence over decision making. There is a belief that in emerging markets concentrated ownership is preferred and thus it is hypothesized that

H5: A higher concentrated ownership is associated with a higher company valuation.

2.4.3 Transparency Practices and Company Valuation

While disclosure is required to keep the investing public informed, it is also a tool to ensure that management and the board keeps the best interest of all shareholders in mind. Weak non-transparent practices and weak disclosure standards can actually encourage fraudulent and unethical activities. The transparent and timely disclosure of financial policy (dividend and investment policy) is important for the value creation of shareholders. The management of a firm is responsible for spreading the information between majority and minority shareholders on an equal basis (Peirson et al., 2000; Full disclosure and transparency of financial information are vital components of the corporate governance framework (OECD, 1999) and are regarded as important good corporate governance ingredients. Recently, a significant number of studies have investigated the relationship between transparency practices employed by the board and changes in company performance and stock prices. The results reveal that corporate performance and especially company valuation is associated strongly with the standard of corporate communication and disclosure practices that are employed by the company, and that companies with better corporate governance have higher standards of disclosure and transparency (Black, Jang, and Kim, 2006; Botosan, 1997). Well-governed companies (those that have transparency of information, accountability for management and that operated efficiently) attract investors and ultimately facilitate the long term growth of the company.

Abdo and Fisher (2007) constructed a broad measure of corporate governance in South Africa .Their score is based largely on King II principles and the standard and Poor's international corporate governance index. Using three measures for the firm value (the annual average share price returns, market

to book ratio, and price earning ratios), they conclude that there is a positive relationship between the level of disclosure and corporate performance. Amidst the pervasive culture of secrecy about corporate governance practices and disclosure by firms in this region, we are therefore proceeding to test out the hypothesis that

H6: The higher the transparency in corporate governance practice the higher the company valuation.

2.4.4. Control Variables and Company Valuation

Given that internal corporate governance is not the sole determinant of economic performance and company valuation, we seek to identify the effects of other determinants and attempt to control for them. MacAvoy and Millstein (2003) used two variables, the economic performance of a firm's industry and the life-cycle position of the firm within that industry. Industry performance matters because some firms are in industries that experience substantial growth in demand, while others are in industries that are stagnant.

Ng (2003) in a related study on firm performance chose the control variables to include firm size, debt ratio, firm growth, director's remuneration, board size, board composition, dummy year, and dummy industry.

Wan and Ong (2005) include three control variables: board size, industry and company size. Also, dividend per share has been widely used in previous studies.

Shleifer and Vishny (1986) note that institutional investors prefer to own shares of firms making regular dividend payments, and argue that large institutional investors are more willing and able to monitor management than are smaller and more diffuse owners. As a result, corporate dividend policies can be tailored to attract institutional investors who in turn provide important monitoring services.

Debt ratio also has been employed by several studies including Larcker, Richardson & Tuna (2004); Bohren and Odegaard (2003) and Weir, Laing & McKnight (2002). It is argued that debt ratio has a mixed effect on firm performance. On one hand, a positive effect may stem from reducing the free cash flows, exposing the firm more to monitoring by the market (the interest tax savings is an additional source of the positive effect of the debt ratio, but is not applicable to UAE firms since there is no corporate income tax). In addition, the threat caused by failure to pay debts serves as an effective motivating force that makes firm more efficient (Bhandari and Weiss, 1996). On the other hand, a negative effect of debt on firm performance may be caused by either the bankruptcy cost or the debt agency cost (Ross et al. 2002). Garay and Gonzalez (2005) used three control variables in their Venezuela study: company size, return on assets and leverage measured as the quotient between total debt and total assets. Javed and Iqbal (2007) in their study of Pakistan listed companies used control variables which included as company size, company age, and leverage which they defined as debt to total asset ratio. This study chose as control variables to be company size, dividend per share, industry, and financial leverage.

3. Corporate Governance in the UAE

What is the current state of the economic and corporate governance environment in the UAE?

3.1 The State of the Economy in the UAE

The UAE has an open economy with a higher per capita income and sizable annual trade surplus. Its wealth is based on oil and gas output, and the fortunes of the economy fluctuate with the prices of those commodities. Since the UAE discovered the oil 30 years ago, the country has undergone a profound transformation from an impoverished region of small desert principalities to a modern state with a high standard of living (the World Fact book, 2006).

The UAE corporate sector began to develop in the middle of the seventies, which witnessed the creation of many companies due to the rise in oil prices and the strong interest of the federal government to build a strong national economy. Most of the UAE companies are either sole proprietorship or partnership; a few are corporations. All companies operate under Federal Commercial Law No 8/1984 and its amendments, with the exception of a few companies which were established and operated under royal decrees.

Over the past ten years, the UAE corporate sector has grown rapidly due to the inception of the country's official stock market and the federal tendency toward privatizing some large infrastructure companies. The main regulatory bodies in the UAE corporate sector are the ministry of Economy, the Central Bank, and the Securities & Commodities Authority (SCA).

The UAE stock market was inaugurated in 2000 and is represented by two governmental security exchanges, Dubai and Abu Dhabi, under the supervision of the SCA. Compared to other stock markets in the region, the UAE stock market is relatively new and small one. However, from 2004 to today, it has enlarged, gained strength, and become more active in terms of the number of IPOs and the listed companies, market capitalization, and the range of market participants such as brokerage firms and investment funds.

3.2 The State of Corporate Governance in UAE

There has been a significant improvement in the standards of corporate governance in the Arab Gulf

region. However, there is still more room for improvement in this regard because corporate governance is still in its initial stages. Nevertheless, real progress is being made; the countries in the region have started to amend their current company laws and strengthen their mechanism for accountability to meet the demand for corporate governance. In the six Gulf States decision makers have started to take control of the situation and are more committed towards implementing standards that promote corporate governance. These steps have been taken to ensure sustainable growth and development, as well as to encourage investment and boost the confidence of international market investors in the Gulf region.

The UAE, like many other developing countries trying to merge with the global economy, has initiated the application of international standards of corporate governance. The turning point began with the introduction of a draft of corporate governance code in Abu Dhabi Stock Exchange in 2006 and the establishment of the *Hawkamah* Institute of Corporate Governance by the Dubai International Financial Centre (DIFC

In March 2007, the Security and Commodities Authority (SCA) which is the main regulatory body of the two securities markets in the UAE issued a code of corporate governance for listed companies. This code was expected to be implemented with effect from 2010 and compliance with it will be compulsory. The new code is meant to improve the practices of corporate governance focusing mainly on independence board independence, the duties and structure of the board in term of size, composition, committees, meetings and leadership structure. There is a strong expectation that the company law and auditors' law would also contain articles on corporate governance, transparency, and accountability on financial date according to international standards for accountability. The study reported herein will test all the internal corporate governance practices including board attributes as of 2007 which have been implemented voluntarily by ADX listed companies prior to the compulsory enforcement of the code of corporate governance for listed companies which is due in 2010.

3.3 The State of Corporate Governance in Abu Dhabi Stock Exchange

Seeking to ensure that ADX listed companies represent the best practice reputation of the market, ADX issued in October 2006 its own Draft of Corporate Governance Code to be included in its Listing Rules those internationally accepted mandatory requirements which all companies must follow and which are not yet present or otherwise covered in the law.The Listing Rules are to ensure that the conduct of public joint stock companies on the Exchange meets the standards expected by shareholders and investors of public listed company's internationally. To give Companies time to adopt the new requirements and incorporate them as necessary into their Articles of Association, the Listing Rules would be introduced over time in three stages.

In summary the corporate governance environment in the UAE can be said to be characterized by:

1/ prevalence of concentrated family ownership structure, where shares are controlled by block holders.

2/ boards dominated by non-independent directors.

3/ lack of significant international institutional investor's base: the lack of international investors has limited the degree and pace of change in corporate governance as regulators and issuers have not been exposed to the demands of international investors.

4/ high degree of liquidity in the region and demands for IPOs, a situation which has not helped in developing a sound framework for corporate governance

5/ non- prevalence of pension plans in the region: more prominence of pension plans as major investors would contribute positively to corporate governance.

6/ general compliance with good practice and regulations of financial disclosures

7/ weak non-financial disclosure by UAE listed companies, in particular with respect to corporate governance related information ; with firms tending to be relatively secretive in their governance practices.

8/ the majority of boards having on average eight members.

9/ the positions of board chairman and CEO being distinct and separated in almost all companies

10/ the majority of companies having Audit committees, but, their structure, composition and activity needing to be strengthened and aligned with corporate governance requirements;

11/ other board committees such as nomination and remuneration committees being less prevalent

4. Research Methodology & Design

4.1 The Model

This research is done in the quantitative paradigm .It is deductive in nature where a conceptual and theoretical framework is developed and then hypotheses are logically drawn and tested by applying regression analysis on numerical cross sectional data about board characteristics, shareholders characteristics, and other company characteristics such as company performance.

On the basis of the previous studies mentioned in section 2.4, we can classify the internal corporate governance factors that determine the dependent variable (company valuation) into four general categories:

A. Board Structure being characterized here in terms of Board Size, Board Meetings, Board Composition ((Non-) Executive Directors)

B. Ownership Structure factors here including Private Institutional Ownership , and Major Shareholders (Ownership Concentration / dispersion) and

C. Transparency Practices.

D. Control Variables taken into account here include: Company size, Industry, Dividend per share and financial leverage.

4.2 Measurement of Variables

1/ Company Valuation (Dependent Variable):

The following variables would be used as proxy of company valuation

A/ Tobin q

B/ Price / Earning Ratio

C/ Market /Book value per share Ratio

A/ Tobin's Q

In line with the studies of MacAvoy and Millstein (2003), and Sanda, Mikailu, and Garba (2005) Tobin Q was used as one of the measures of company valuation in this study. Tobin Q was measured by computing the market value (MV) of debt and equity divided by book value (BV) of total assets on the balance sheet, i.e. MV (Equity + LTD) / BV (TFA + NWC). Here LTD is long term debt, TFA is total fixed assets and NWC is net working capital i.e. current assets minus current liabilities.

B/ Price / Earning Ratio (PER)

In line with the studies of Drobetz, Schillhofer, and Zimmermann (2002), and Sanda, Mikailu, and Garba (2005) price earnings ratio was used as one of the measures of company valuation in this study. Price earnings ratio was measured by dividing the share market price by the earning per share.

C/ Market Book value Ratio (MBVR)

In line with the studies of Drobetz, Schillhofer, and Zimmermann (2002) market book value ratio was used as one of the measures of company valuation in this study. This variable was measured by dividing its market price by the book value per share.

2/ board size, was measured by the number of board members.

3/ number of outside directors, was measured by the percentage of Non Executive Directors

4/ Major Shareholders was the proxy for ownership concentration, measured by the number of shareholders who owns 5% and more of the total outstanding shares of the concerned company (Major shareholders are defined by UAE Security and Commodity Authority by the shareholders who own 5% or more of the company listed shares)

5/ Private institutional ownership, was measured by the percentage of their shareholding.

6/ Board Meetings were measured by the actual number of board meetings during the year.

7/ Company Size (control variable), was measured by taking the natural logarithm of the net sales value

8/ Dividend per share (control variable), was measured by the total amount of dividend paid divided by the number of outstanding shares.

9/ Industry (control variable), was used as a dummy variable given number from 1 – 9 as per the concerned industry Weighted Average Accounting Return (WAAR) which reflects the overall financial performance in term of weighted average of return on equity, return on assets and return on sales. Dummy number (9) will be given to the industry with the highest WAAR, and Dummy number (1) will be given to the industry with the lowest WAAR.

10/ Financial leverage (control variable) was measured by the Total liabilities / Total assets ratio.

4.3 Research Sample and Data

The empirical study was carried out using publicly listed companies in Abu Dhabi Securities Exchange (ADX) as the sample frame. Established in November 2000, ADX is the official stock exchange of Abu Dhabi, the federal capital of the United Arab Emirates (UAE). ADX serves the domestic cash equity market, has 64 listed companies and a market capitalisation of AED 258 billion (USD 70 billion) as at 31 December 2008. Private companies were not used as it is often difficult to obtain data about these companies. Information from listed firms is also more accurate, since they have to be certified. The whole population of 64 ADX incorporated companies will be targeted for the study. ALL the 64 listed companies in Abu Dhabi Securities Exchange (ADX) were included, and only companies with missing data were dropped. The data mainly were secondary data about board structure which are generally available from UAE security and commodities authority (SCA), the regulatory body for public companies in UAE as well as from both Abu Dhabi Securities Exchange publications and websites.

5. Data Collection & Regression Results

5.1 Data Preparation

Appendix 10 presents the preparation steps we followed in ranking the nine industries of Abu Dhabi Securities Exchange (ADX), all the industries have been ranked as per their financial performance, which is calculated as the weighed average of return on sales, return on assets, and return on equity and this variable called weighted average accounting return

(WAAR). We used WAAR as opposed to the other three variables to have an objective and unbiased measure of the overall financial performance of the concerned industry. Accordingly, companies in the real estate industry which have the highest WAAR have been given dummy value 9 and companies in the Energy industry which have the lowest WAAR have been given dummy value 1.

Appendix 11 present the preparation steps we followed in re calculating or adjusting the published data for institutional ownership, the reason for adjusting the data is due to the researcher disagreement with the criteria used by the published data of ADX for breaking down institutional ownership into private ownership and government ownership, in the published data they classified all shares owned by the sovereign wealth fund of Abu Dhabi Investment Authority (ADIA) as government ownership. In our opinion ADIA shareholding should be reclassifies as private ownership as it has more resemblance with them than with UAE government agencies in term of having a very professional investment team which manage all of it's portfolios in term of equity, fixed income, and property investment. It worth mentioning here that ADIA is the world biggest sovereign wealth fund (SWF) estimated at 1.3 trillion dollar. We subtracted ADIA ownership percentage from government ownership and added to private institutional ownership.

In Appendix 12 we calculated the score for transparency practices (TP) by calculating the average of the corporate communication score and disclosure score together, both of them are published by The Institutional Investor (TNI) in their report Back to BASICs. The following preparatory steps have been followed: corporate communication score was a weighted average of 9 measures and disclosure score was a weighted average of 25 measures. So, the published figure for corporate communication was multiplied by 9 and the published figure for disclosure was multiplied by 25 and we added the result of two variable and we divide it by 34 to reach the final figure for measuring the score for transparency practices. The descriptive statistics for the independent and dependent variables are calculated to ascertain the general characteristics of the firms in UAE and presented in appendix 1.

5.3 Regression Results Presentation

The results of the multiple regression analyses are presented in appendices 2 – 9:

Appendix 2 shows that the correlation between each of the independent variables is not so high. The highest correlation (0.439) was found between transparency practices (TP) and company size (CS), which is quite satisfactory.

Appendix 3 reveals that the coefficient of determination (R^2) is equal to 37.7 percent and the adjusted R^2 is equal to 24.1 percent which is a quite acceptable result. The table also shows that the model reaches statistical significance where the F test statistic equal 2.782 with 10 and 46 degrees of freedom with a p-value < .01.

Appendix 4 presents the tolerance values, which are all above 0.10. These results verify that no significant collinearity exists between the independent variables (Hair et al., 2005). In addition, all the VIF values of the independent variables are less than 10, which suggest that there is no collinearity ((Hair et al., 2005). Moreover, Table 5.4.3 presents the beta coefficients for the independent variables. The largest t statistics are -2.805 (p-value < 0.05) for industry (IND), 1.973 (p-value < 0.01) for transparency practices (TP), 1.863 (p-value < 0.01) for private institutional ownership (PIO), -1.86 (p-value < 0.01) for company size (CS) and 1.733 (p-value< 0.01) for number of board meetings (MEET). This indicates the variables have a comparable degree of importance in the model. In other words, they make the strongest unique contribution to explaining company valuation as measured by price earning ratio.

In short, these results confirm that there is enough evidence to support the proposition that internal corporate governance mechanisms have a significant impact on company valuation measured by Price Earning Ratio (PER) , in this Middle Eastern socio-economic environment.

The rest of the results of the tests of the drawn up hypotheses are presented in Appendices 4-9.

6. Conclusion

Table 6.1. Hypotheses Testing Results Summary

Hypotheses	**Testing Outcome**
H1: The bigger the Board size the higher the company valuation (Discussed in section 2.4.1)	Rejected
H2: The higher the number of actual board meetings the higher the company valuation (discussed in section 2.4.1.4)	**Accepted**
H3: The higher the percentage of non-executive directors the higher the company valuation (discussed in section 2.4.1.5)	Rejected
H4: The larger the percentage of private institutional ownership the higher the company valuation (discussed in section 2.4.2.1)	**Accepted**

H5: The higher the number of Major Shareholders who owns more than 5% of the company share the higher the company valuation (discussed in section 2.4.2.2)	Rejected
H6: the higher the transparency and disclosure in corporate governance practice the higher the company valuation (discussed in section 2.4.3)	**Accepted**

Table 6.2 is the summary of the research findings and the way they compare and contrast with other studies in the literature.

Table 6.2. Research Findings Summary

#	**Research Question**	**Research – based Answer**	**Comments**
1	What are the internal firm level governance variables that significantly influence firm valuation of listed companies in the UAE?	1.Transparency practices 2.Private institutional ownership, and 3. Board meetings frequency	Transparency practices result is consistent with Abdo & Fisher (2007) in South Africa but contrary to Attiya & Robina (2007) findings in Pakistan.
2	To what extent do boards' structure variables significantly influence firm valuation in UAE listed companies	Board meetings are significantly and positively associated with company valuation in the case of the UAE, whereas, board size and composition were not	Consistent with Adam s & Ferreira (2005) in USA, but contrary to Vafeas (1999)
3	To what extent do variables for ownership structure influence firm valuation in the UAE	Type of shareholder whether individual, government , or private institutional investors is a significantly associated with company valuation in the UAE	Consistent with McConnell & Servaes (1990) in USA, and Lei & Song (2000) in Hong Kong

The research reported herein is the first integrated model to link the company valuation with the internal corporate governance indicators including board structure variables, ownership structure variables, and transparency practices in the ADX as one of the emerging markets in the Middle East. The study makes a number of improvements over the achievements of previous related studies.

It incorporates in its analysis two board processes variables (meetings frequency and the score for transparency practices) to go beyond the more traditional structural board attributes commonly used in similar studies. It has confirmed the significance of the use of P/E ratio as a company valuation measure in this emerging market in the Middle East. Finally the study tests one of the major ownership structure variables in the region, namely the sovereign wealth funds ownership in listed companies and its ultimate effect on the company valuation, where the empirical results indicated their positive impact on company valuation through their massive role in corporate governance implementation and efficient corporate control.

The results of the study showed that for ADX listed companies there is no significant relationship between internal corporate governance indicators and company valuation as measured by well-known company valuation measures such as Tobin's Q and Market – Book Value Ratio. However a significant relationship emerges when company valuation is measured by PER.

Three of the internal governance variables used in the model (private institutional investors ownership, transparency practices, and number of board meetings) appeared to have significant impact on firm valuation in the UAE socio-economic environment. In addition, the two of the three control variables that were used (company size and industry) showed a strong relationship with company valuation. On the other hand three other governance variables, namely board size, number of non-executive directors, and ownership concentration (as measured by the number of major shareholders owning 5% and above the company shares) were found to have no significant effect on firm valuation which could be attributed to the large similarity among UAE listed companies with respect to those internal governance variables.

Our results suggest that the transparency practices implemented and board activity in term of number of board meetings play a more important role than board size and The UAE Corporate Governance Code for Listed Companies which will be in effect from 2010 states in Article 3.6 'Meetings of the Board of Directors shall be held at least once every two months upon a written convocation of the Chairman of the Board of Directors, or upon a written request submitted by at least two thirds of the Directors. The Convocation of the meeting shall be given, together

with the agenda, at least one week before the meeting is held. A director has the right to add any matter that he may deem necessary, for discussion in the meeting'. So, if the performance and value of UAE listed companies' is to improve they must schedule more board meetings with well-structured, smart agenda that enclose important topics. In the sample that was studied, only two board meetings were held, on average per year. This is representative of current practices in UAE. In contrast the corporate governance code proposes six meeting every year, which leaves listed companies well below the threshold of good governance with regard to meetings. However, the good news is that this gap could be compensated for by directors focusing more on ensuring that the time spent during meetings is quality time, so that they can be more productive and effective.

Given the size of their shareholding, the power of the institutional investors cannot be underestimated. In the sample used in the study the average ownership for institutional investors is 50% of the total shareholding 35% for private institutional investors and 15% for government agencies). The institutional investors' capacity to exert significant influence on companies has clear implications for corporate governance and consequently company valuation. The results of the study confirmed this suggestion: private institutional investor's ownership was confirmed to have a significant positive relationship with company valuation. Regulators favours the presence of institutional investors especially private ones because of their ability to use their power as owners to ensure that the companies in which they invest comply with standards of corporate governance and can enforce all the regulator codes. Given the constructive effect that private institutional investors have on company market valuation, they need to be attracted to invest.

Another interesting result of the study is related to confirming the positive role played by sovereign wealth funds such as ADIA in inducing best-practices corporate governance and playing a leading role in influencing company valuation. This result confirms that SWF motives for investment is for financial and economical return rather than for political reasons as some opponent of SWF argue. For the UAE to increase the presence of SWF, the UAE needs to make them a magnet for more local and foreign investors by establishing an attractive investment environment by creating the relevant economic, regulatory and enforcement institutions that are capable of drafting best-practices codes and standards.

This study, in short, has managed to:

1/ establish the relevance of transparency and disclosure practices, private institutional ownership and actual board meetings frequency in corporate valuation in the UAE socio-economic environment.

2/ reconfirm that the degree to which transparency practices are relevant to corporate valuation is likely to differ from one socio-economic environment to another.

3/ highlight the role of corporate governance in effective utilisation of assets to improve the value of a firm.

Therefore, the results of the study support the argument that the differences in economic, social, organisational and institutional structures and systems influence the process by which the value of the firm is affected by governance variables in developing and developed financial markets, and are very useful in explaining the differences in the relationship between corporate governance and the value of the firm in different markets.

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Appendices

Appendix 1. Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	N
PER	0.61	2.06	1.0949	.27983	57
MEET	0	11	2.0351	1.88949	57
PIS	0.091	0.778	.3682	.18281	57
IND	1	9	5.6842	2.31577	57
TP	1.55	6.17	4.0147	.80558	57
CS	3.02	6.92	5.6207	.70141	57
BS	3	15	7.7193	2.02444	57
OC	1	8	1.6491	.91595	57
FL	.04	11.43	4.824	.29625	57
DPS	0	5	.2520	.66833	57
NEDP	.80	1.00	.9724	.05539	57

Appendix 2. Correlations

		PER	MEET	PIS	TP	CS	IND	NEDP	OC	DPS	FL	BS
Pearson Correlation	PER	1.000	.254	.346	.252	-.128	-.321	-.013	-.163	-.130	.066	.130
	MEET	.254	1.000	.262	.132	.187	.084	-.053	-.013	.009	.271	.199
	PI0	.346	.262	1.000	.371	.075	.137	-.070	-.136	-.020	.173	.227
	TP	.252	.132	.371	1.000	.439	.095	-.279	-.248	-.126	.351	.165
	CS	-.128	.187	.075	.439	1.000	.242	.034	-.158	.105	.299	-.150
	IND	-.321	.084	.137	.095	.242	1.000	.099	.258	.207	.235	.099
	NEDP	-.013	-.053	-.070	-.279	.034	.099	1.000	-.055	-.009	-.397	.025
	OC	-.163	-.013	-.136	-.248	-.158	.258	-.055	1.000	.051	.157	-.083
	DPS	-.130	.009	-.020	-.126	.105	.207	-.009	.051	1.000	.042	-.040
	FL	.066	.271	.173	.351	.299	.235	-.397	.157	.042	1.000	.069
	BS	.130	.199	.227	.165	-.150	.099	.025	-.083	-.040	.069	1.000
Sig. (1-tailed)	PER	.	.028	.004	.029	.171	.007	.462	.113	.168	.313	.168
	MEET	.028	.	.025	.165	.081	.267	.347	.461	.475	.021	.069
	PI0	.004	.025	.	.002	.289	.156	.303	.156	.441	.099	.045
	TP	.029	.165	.002	.	.000	.242	.018	.031	.176	.004	.110
	CS	.171	.081	.289	.000	.	.035	.401	.120	.218	.012	.133
	IND	.007	.267	.156	.242	.035	.	.232	.026	.061	.039	.232
	NEDP	.462	.347	.303	.018	.401	.232	.	.343	.472	.001	.428
	OC	.113	.461	.156	.031	.120	.026	.343	.	.353	.122	.270
	DPS	.168	.475	.441	.176	.218	.061	.472	.353	.	.379	.383
	FL	.313	.021	.099	.004	.012	.039	.001	.122	.379	.	.306
	BS	.168	.069	.045	.110	.133	.232	.428	.270	.383	.306	.
N	PER	57	57	57	57	57	57	57	57	57	57	57
	MEET	57	57	57	57	57	57	57	57	57	57	57
	PI0	57	57	57	57	57	57	57	57	57	57	57
	TP	57	57	57	57	57	57	57	57	57	57	57
	CS	57	57	57	57	57	57	57	57	57	57	57
	IND	57	57	57	57	57	57	57	57	57	57	57
	NEDP	57	57	57	57	57	57	57	57	57	57	57
	OC	57	57	57	57	57	57	57	57	57	57	57
	DPS	57	57	57	57	57	57	57	57	57	57	57
	FL	57	57	57	57	57	57	57	57	57	57	57
	BS	57	57	57	57	57	57	57	57	57	57	57

Appendix 3. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.614[a]	.377	.241	.24373	.377	2.782	10	46	.009	1.987

Appendix 4. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	.384	.739		.519	.606	-1.104	1.872					
	MEET	.033	.019	.222	1.733	.090	-.005	.071	.254	.248	.202	.826	1.210
	PI0	.379	.203	.247	1.863	.069	-.031	.788	.346	.265	.217	.768	1.301
	TP	.110	.056	.316	1.973	.054	-.002	.221	.252	.279	.230	.529	1.889
	CS	-.113	.061	-.282	-1.860	.069	-.234	.009	-.128	-.265	-.217	.589	1.699
	IND	-.046	.016	-.378	-2.805	.007	-.078	-.013	-.321	-.382	-.326	.748	1.338
	NEDP	.979	.695	.194	1.409	.166	-.420	2.379	-.013	.203	.164	.716	1.398
	OC	-.002	.041	-.005	-.039	.969	-.083	.080	-.163	-.006	-.005	.770	1.299
	DPS	.007	.051	.017	.140	.890	-.096	.110	-.130	.021	.016	.906	1.104
	FL	.099	.139	.105	.715	.478	-.180	.378	.066	.105	.083	.628	1.592
	BS	-.005	.018	-.040	-.307	.760	-.041	.030	.130	-.045	-.036	.817	1.225

Appendix 5. Annova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.653	10	.165	2.782	.009
	Residual	2.733	46	.059		
	Total	4.385	56			

Appendix 6. Coefficient Correlations

Model		BS	NEDP	DPS	OC	MEET	CS	PIS	INDU	FL	TP
Correlations	BS	1.000	-.120	-.007	.102	-.194	.320	-.074	-.132	-.054	-.203
	NEDP	-.120	1.000	.103	.058	.000	-.248	-.046	-.180	.380	.287
	DPS	-.007	.103	1.000	.042	.020	-.141	-.027	-.192	.002	.210
	OC	.102	.058	.042	1.000	-.012	.175	.100	-.308	-.203	.198
	MEET	-.194	.000	.020	-.012	1.000	-.184	-.220	.053	-.190	.122
	CS	.320	-.248	-.141	.175	-.184	1.000	.159	-.199	-.209	-.442
	PI0	-.074	-.046	-.027	.100	-.220	.159	1.000	-.125	-.033	-.313
	IND	-.132	-.180	-.192	-.308	.053	-.199	-.125	1.000	-.147	-.024
	FL	-.054	.380	.002	-.203	-.190	-.209	-.033	-.147	1.000	-.137
	TP	-.203	.287	.210	.198	.122	-.442	-.313	-.024	-.137	1.000
Covariances	BS	.000	-.001	-6.289E-6	7.390E-5	-6.553E-5	.000	.000	-3.823E-5	.000	.000
	NEDP	-.001	.483	.004	.002	-8.407E-6	-.010	-.006	-.002	.037	.011

	DPS	-6.289E-6	.004	.003	8.721E-5	1.969E-5	.000	.000	.000	1.522E-5	.001
	OC	7.390E-5	.002	8.721E-5	.002	-8.893E-6	.000	.001	.000	-.001	.000
	MEET	-6.553E-5	-8.407E-6	1.969E-5	-8.893E-6	.000	.000	.000	1.622E-5	.000	.000
	CS	.000	-.010	.000	.000	.000	.004	.002	.000	-.002	-.001
	PI0	.000	-.006	.000	.001	.000	.002	.041	.000	.000	-.004
	IND	-3.823E-5	-.002	.000	.000	1.622E-5	.000	.000	.000	.000	-2.157E-5
	FL	.000	.037	1.522E-5	-.001	.000	-.002	.000	.000	.019	-.001
	TP	.000	.011	.001	.000	.000	-.001	-.004	-2.157E-5	-.001	.003

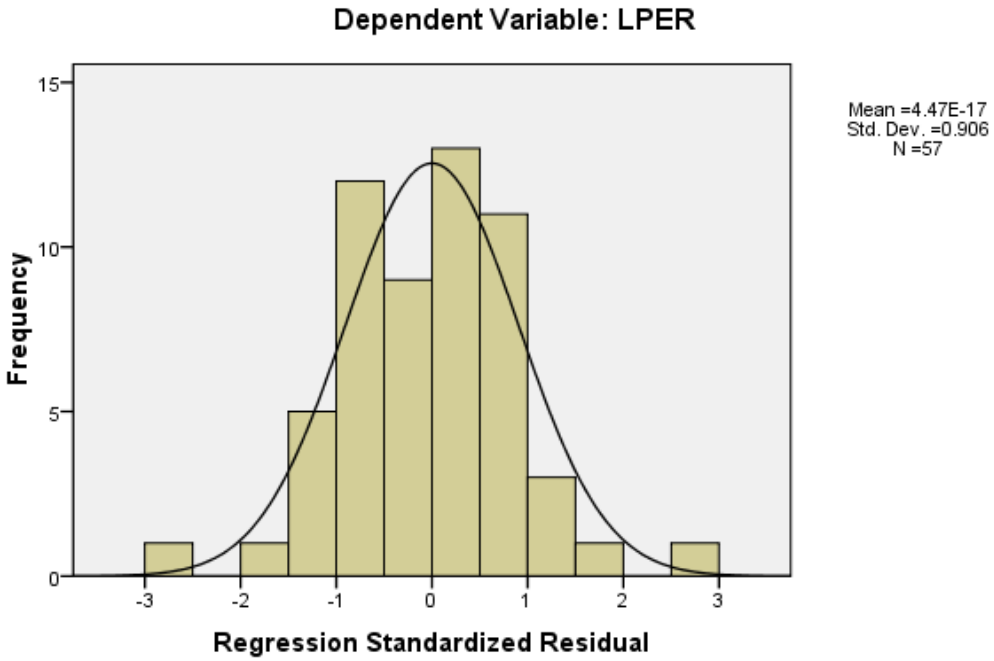
Appendix 7. Collinearity Diagnostics

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions										
				(Constant)	MEET	PI0	TP	CS	IND	NEDP	OC	DPS	FL	BS
1	1	8.944	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	.865	3.216	.00	.00	.00	.00	.00	.00	.00	.00	.89	.00	.00
	3	.423	4.599	.00	.72	.00	.00	.00	.01	.00	.04	.01	.01	.00
	4	.253	5.946	.00	.04	.12	.00	.00	.00	.00	.34	.01	.11	.01
	5	.207	6.573	.00	.16	.01	.00	.00	.00	.00	.12	.00	.58	.00
	6	.130	8.295	.00	.02	.74	.00	.00	.00	.00	.18	.00	.01	.01
	7	.100	9.474	.00	.00	.02	.00	.00	.90	.00	.11	.05	.01	.01
	8	.052	13.074	.00	.02	.01	.02	.02	.00	.00	.00	.00	.02	.76
	9	.020	21.373	.01	.01	.07	.71	.01	.00	.02	.12	.02	.14	.01
	10	.006	38.366	.04	.04	.03	.16	.96	.04	.05	.06	.02	.04	.20
	11	.001	90.341	.95	.00	.00	.10	.00	.04	.93	.03	.01	.10	.00
a. Dependent Variable: LPER														

Appendix 8. Residual Statistics

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.6547	1.7290	1.0949	.17179	57
Std. Predicted Value	-2.562	3.691	.000	1.000	57
Standard Error of Predicted Value	.056	.236	.102	.032	57
Adjusted Predicted Value	-.3248	1.7029	1.0737	.25597	57
Residual	-.63670	.67317	.00000	.22090	57
Std. Residual	-2.612	2.762	.000	.906	57
Stud. Residual	-3.343	2.925	.016	1.039	57
Deleted Residual	-1.04289	1.25482	.02118	.33426	57
Stud. Deleted Residual	-3.801	3.206	.014	1.087	57
Mahal. Distance	1.943	51.741	9.825	8.160	57
Cook's Distance	.000	2.269	.072	.315	57
Centered Leverage Value	.035	.924	.175	.146	57

Appendix 9. Histogram



Appendix 10. Industry Ranking Table

Industry	Return on Sales (ROS)	Return on Assets (ROA)	Return on Equity (ROE)	Weighted Average Accounting Return (WAAR)	Industry Ranking
Banking & Financial Services	43.11	4.81	21.95	23.29	7
Construction	36.23	12.52	16.49	21.75	5
Consumer	35.45	9.81	11.94	19.07	3
Energy	11.52	2.33	10.05	7.97	1
Health	31.03	14.86	22.19	22.69	6
Industrial	34.97	5.29	11.70	17.32	2
Insurance	44.26	14.21	19.79	26.09	8
Real Estate	70.20	13.57	23.45	35.74	9
Telecommunication	27.72	10.78	23.09	20.53	4

Appendix 11. Calculation of Private Institutional Investors Ownership

#	Company Symbol	Original Institution Ownership %	Original Govt. Ownership %	Original Private Ownership %	Abu Dhabi Investment Authority (ADIA) Ownership %	Adjusted Govt Ownership %	Adjusted Private Ownership %	Institution Ownership %
2	NBAD	0.78	0.73	0.05	0.73	0.00	0.78	0.78
3	ADCB	0.78	0.65	0.13	0.65	0.00	0.78	0.78
6	UNB	0.73	0.60	0.13	0.10	0.50	0.23	0.73
15	UCC	0.65	0.61	0.04	0.20	0.41	0.24	0.65
20	FCI	0.35	0.35		0.20	0.15	0.20	0.35
27	ASMAK	0.38	0.08	0.30	0.05	0.03	0.35	0.38
37	ALAIN	0.29	0.20	0.09	0.20	0.00	0.28	0.29
38	EIC	0.47	0.12	0.35	0.12	0.00	0.47	0.47
40	ADNIC	0.36	0.24	0.12	0.24	0.00	0.36	0.36
53	ADAVIATION	0.41	0.30	0.10	0.30	0.00	0.40	0.41
54	ADNH	0.32	0.18	0.14	0.18	0.00	0.32	0.32

Appendix 12. Calculation of Corporate Communication & Disclosure

#	Symbol	Corporate Communication	Disclosure	Corporate Communication
1	ADIB	6.67	4.62	5.16
2	NBAD	6.44	3.72	4.44
3	ADCB	6.67	3.85	4.60
4	CBI	7.33	3.38	4.43
5	FGB	6.67	4.62	5.16
6	UNB	6.44	4.23	4.82
7	BOS	7.56	5	5.68
8	SIB	6.22	3.68	4.35
9	UAB	4.22	3.85	3.95
10	INVESTB	3.11	3.8	3.62
11	NBQ	7.56	3.85	4.83
12	RAKBANK	6.00	4.19	4.67
13	NBF	6.22	3.42	4.16
14	GCEM	6.22	3.46	4.19
15	UCC	2.00	3.12	2.82
16	RAKWCT	4.89	3.59	3.93
17	RAKCEC	3.78	3.46	3.54
18	RAKCC	7.11	3.16	4.21
19	QCEM	4.00	3.21	3.42
20	FCI	4.00	3.38	3.54
21	SCIDC	6.00	3.29	4.01
22	BILDCO	5.33	3.16	3.73
23	ARKAN	5.33	3.76	4.18
24	FBICO	2.67	3.38	3.19
25	FOODCO	5.33	2.99	3.61
26	RAPCO	4.78	3.21	3.63
27	ASMAK	4.89	3.68	4.00
28	AGTHIA	7.11	3.85	4.71
29	TAQA	8.89	3.46	4.90
30	AABAR	4.89	4.23	4.40
31	DANA	6.00	3.46	4.13
32	ADSB	6.44	3.08	3.97
33	JULPHAR	5.11	3.21	3.71
34	AKIC	5.11	4.06	4.34
35	DHAFRA	4.00	4.1	4.07
36	AWNIC	3.33	4.06	3.87
37	ALAIN	5.11	1.67	2.58
38	EIC	6.67	4.23	4.88
39	UIC	5.33	2.78	3.46
40	ADNIC	6.22	4.23	4.76
41	UNION	3.33	2.82	2.96
42	ABNIC	3.33	2.95	3.05
43	TKFL	6.22	3.59	4.29
44	RAKNIC	2.00	3.29	2.95
45	SICO	5.11	2.82	3.43
46	FH	6.22	4.23	4.76
47	OILC	3.33	3.68	3.59
48	ALDAR	6.22	6.15	6.17
49	SOROUH	6.00	4.62	4.99
50	DRIVE	4.89	2.56	3.18
51	NMDC	1.78	3.38	2.96
52	ADAVIATION	5.11	3.46	3.90
53	ADNH	6.22	4.23	4.76
54	NCTH	6.67	3.16	4.09
55	GMPC	4.22	2.82	3.19
56	FTC	3.11	3.46	3.37
57	AFNIC	1.56	1.54	1.55