

# THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND STOCK PRICES IN THE GCC FINANCIAL MARKETS

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## Abstract

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The study investigates the impact of corporate governance characteristics on stock prices in the Gulf Cooperation Council (GCC) financial markets. It covers the financial markets of four (GCC) countries with a sample of 237 firms for the period of 2013-2017. The study was based on the GCC financial markets' database, financial statements and ancillary notes which include corporate governance, stock prices by Bloomberg and share location. A multi-regression model was used. The independent variables were four corporate governance characteristics and the dependent variable was the stock price, in addition to using a number of control variables. A positive relationship was found between corporate governance and return on stock. The Gulf companies that have increased levels of corporate governance have increased returns to their shares, indicating that these companies are working to reduce the agency's cost and eliminate the conflict between shareholders and directors. Few studies have focused on the relationship of corporate governance characteristics on stock prices in the GCC financial markets. The existing study contributes to the financial management literature by providing further evidence on such a relationship, especially in emerging countries. It serves as a guide to investors looking for the best investments in reliable companies in the region.

**Keywords:** Corporate Governance, Stock Prices, GCC, Financial Markets

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## 1. INTRODUCTION

Corporate governance encourages more investments and improves board members' monitoring function (Shahid & Abbas, 2019). With corporate governance, firms can improve their financial performance and

motivate directors to achieve the best returns on investments. The importance of financial and non-financial performance measures has come out as opposed to traditional financial standards which have failed to explore future performance and effective evaluation. This has led to the

development of performance measurement systems that are consistent with the nature and design of traditional firms, linked to strategic objectives, and considering financial and non-financial measures.

Cheng, Su, Yan, and Zhao (2019) found that target price accuracy gets better by applying corporate governance as firms can have a better reaction to their target price announcements. When good corporate governance is functioned, target price accuracy can be improved. Corporate governance also improves the quality and efficiency of the organization's leadership and the quality of their production of goods and services. It also contributes to supporting transparency in the operations of the firm and enhances community trust in the firm's financial statements. Good corporate governance is not the end goal of the organization but helps to define and achieve its objectives. This happens by determining the firm's aim, objectives, and strategy, and makes the management accountable to shareholders and other stakeholders.

Although corporate governance is an indicator of the firm's success and the economy, the public and private sectors of some countries have not given enough attention to its importance. This is obvious with a low level of awareness campaigns. Therefore, firms should examine the relationship between corporate governance and performance that includes financial, operational, market, and stock performance. This step supports the agency theory that calls for the separation of the firm's ownership from management, as well as internal control and supervision. This separation becomes more important when a firm gets larger and transforms into a public company that seeks better efficiency of the governance system with the aim of meeting the best interests of owners and other stakeholders (Borsali, 2011). After the recent financial crises and the collapse of major international companies, the principles of corporate governance have been reinforced with proper rules and regulations to protect the interests of all parties of the firm.

Arslan, Abidin, Alqatan, and Roudaki (2019) focused on the formal and informal institutional determinants that affect corporate governance and identified the main barriers and drivers. Barriers include firm-level barriers, external barriers, social barriers, education and training barriers and legal barriers, while drivers include internal drivers, regulatory drivers, motivational drivers and collaborative drivers. They found that corporate governance had a significant positive relationship on return on assets and return on equity. They also found that legal infrastructure and regulatory instruments supported corporate governance, while compliance and enforcement were low.

Alvino, Pisano, Lepore, Celentano, and Staiano (2019) investigated corporate governance related issues such as ownership concentration, board independence, role duality, board meetings and board size, where a negative relationship was found between ownership concentration and key financial performance indicators disclosure. On the other hand, a positive relationship was found between board independence and role duality, and the level of voluntary financial disclosure. Onyina and Gyanor (2019) examined the impact of corporate governance practices on listed firms and found a

positive relationship between board size and firms' operations. On the other hand, a negative impact was found of investment in property on the firm's performance. Sales growth improves the firm's operation, while high leverage reduces it. They concluded that corporate governance practices need to be improved, and some considerations have to be paid to board size and leverage, as a large number of board members limits the power of executive management, and a high leverage level reduces the firm's performance.

The Gulf Cooperation Council (GCC) countries have witnessed rapid growth at various levels, and major changes in their regulatory and legal environment. Recently, their economy has grown rapidly, benefiting from increased oil production and price rise. The GCC countries have embarked on a range of fiscal reforms to encourage foreign investments. One of these reforms is permitting foreign investment in some countries with tax exemptions. This has made their markets to be one of the main markets in the region, paving the way for investors to enter these emerging markets. The challenge is to see not only economic development but at the evolution of a good regulatory and legislative structure of the GCC financial markets, including corporate governance controls to help eliminate conflicts that may arise between interest groups (Hamdan, 2011).

The current study contributes to the financial management literature by focusing on the relationship of corporate governance to investor's decisions and the consequent impact on the market stock price in emerging countries. It enlightens decision-makers in the GCC countries on the level of corporate governance in the financial markets and the effectiveness of firms. The results, therefore, serve as a guide for investors looking for the best investments by linking corporate governance to the stock performance where firms with good corporate governance can be a rewarding investment target. The study, therefore, aims to answer the question: Is there a relationship between corporate governance and stock prices? This paper is organized into six sections. After this introduction comes literature review and hypotheses development. Section 3 discusses methodology, data collection methods, population sample, and measurement methods. Section 4 outlines a descriptive study of the variables, Section 5 tests hypotheses and discusses results, and Section 6 puts forward the study conclusion.

## 2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Good corporate governance provides the board with the right incentives to achieve the firm's objectives, creates an effective monitoring process, and efficiently helps to utilize the firm's resources (Yassin, 2008). Corporate governance seeks to prevent manipulation, fraud and deception and reduces the negative impact of information asymmetries by setting out control measures in the firm to meet the interests of different stakeholders (Zidan, 2005). This is achieved through having an effective legal framework, and an independent auditor (Abu-Amsha, 2011). Corporate governance protects stakeholders' interests, provides proper

information, and helps to develop a clear strategy for the firm to achieve its objectives. Corporate governance also sets out a framework for the board of directors' practices, accountants, auditors, and investors. This helps achieve corporate governance objectives such as optimal resource utilization, better rate of economic growth, and more trust by investors and customers of stock exchange markets.

Hamdan, Al-Sartawi, and Jabr (2013) conducted a study on the Kuwait Stock Exchange and found that corporate governance is a deterrent to investment in Kuwaiti firms. In other words, there is a negative relationship between corporate governance and investment. On the other hand, Alfaraih, Alanezi, and Almujaheed (2012) found that investors played a prominent role in supporting corporate governance mechanisms in Kuwaiti firms, which was positively reflected in corporate performance, but a negative relationship was found between government ownership and performance. On the other hand, corporate governance impact was found on the firm's value (Fallatah & Dickins, 2012). Corporate governance is defined as a combination of policies, laws and instructions influencing the way a firm is managed and controlled. It is a framework of rules to ensure transparency and fairness in the relationship between the firms and their shareholders. Such a framework comprises external and internal contracts between employees and the shareholders and includes the distribution of rewards and responsibilities to control conflicting interests (Buallay, Hamdan, & Zureigat, 2017).

Corporate governance is classified into internal and external mechanisms. An internal mechanism includes ownership structure, a board of directors, executive compensation, audit committees, and financial disclosures, while an external mechanism encompasses control, managerial labor markets, product market competition, and legal infrastructure (Bushman & Smith, 2001; Cremers & Nair, 2005). Hussain and Mallin (2002) analyzed the progress of corporate governance of firms listed in the Bahrain stock exchange market working in different sectors such as banking, investment, insurance, services, industrial and, hotel and tourism. Good practices of international corporate governance in these firms were found. The firm boards were dominated by non-executive directors, with a separation in the roles of chair and CEO. The firms were found to have risk management control and internal audit.

Al-Shammari and Al-Sultan (2010) studied the relationship between corporate governance characteristics and voluntary disclosures for firms listed in the Kuwait Stock Exchange. The corporate governance characteristics used in the study included non-executive directors, family members, role duality and voluntary audit committee, where they found that voluntary audit committee had a significant and positive relationship to voluntary disclosure. Another study in Kuwait conducted by Alfaraih et al. (2012) measured the effect of institutional and government ownership on a firm's performance and found that institutional ownership positively affects a firm's performance while government ownership negatively affects a firm's performance.

Fallatah and Dickins (2012) studied the impact of corporate governance characteristics on firm

performance and firm value in Saudi Arabia and found that there is an insignificant relationship between corporate governance and firm performance but a positive relationship between corporate governance and firm value. Al-Tamimi (2012) found a positive relationship between the corporate governance practices of banks' in the UAE and performance level. The awareness of the importance of corporate governance mechanisms, relationships with stakeholders, the role of the board of directors, and disclosure and transparency were also found positive. Dalwai, Basiruddin, and Abdul Rasid (2015) called for more developments of the corporate governance practices within GCC financial markets.

Pillai and Al-Malkawi (2016) found that most of the firms operating in the GCC countries adhere to proper disclosure, board effectiveness, and shareholders' rights in the UAE. It was also found that financial firms showed higher levels of CG compliance than non-financial firms. Pillaia and Al-Malkawi (2018) examined the impact of internal mechanisms of corporate governance on firm performance in the GCC countries on financial and non-financial firms listed in the stock exchanges of the GCC countries. The results showed that governance variables such as government shareholdings, audit type, board size, corporate social responsibility and leverage significantly affected firm performance in the majority of the countries in the GCC. In their study (Andreou Antoniou, Horton, & Louca, 2016), investigated the relationship between attributes such as ownership structure, accounting opacity, board structure and processes, and managerial incentives, future stock price crash risk and found that the level of corporate governance determines firm's success in achieving a targeted stock price level.

Teker and Yüksel (2014) called for the need to improve corporate governance practices in the financial markets. They examined the value of corporate governance with market players operating in Borsa Istanbul. They observed that the average corporate governance scores over the years showed an increasing trend. There was competition among firms to receive an initial score and then receive a higher score every other year, and market players very positively responded to the announcement of corporate governance scores. Idolor and Abdulganiyu (2015) investigated the announcement effect of corporate governance failures of some highly-rated Nigerian commercial banks, publicly announced by the Central Bank of Nigeria and found that the stock market is informationally efficient in Nigeria and that investors do react to the announcement of corporate governance failure. The principal-agent problem was a major corporate governance challenge as it weakens financial stability when the incentives of bank management and directors are not aligned with those of the owners of the bank.

Claessens and Yurtoglu (2013) studied corporate governance in emerging markets and found that corporate governance makes firms receive many benefits such as greater access to financing, lower cost of capital, better performance, and better relationships with stakeholders. On the other hand, when a country's governance system is weak, corporate governance mechanisms are less effective. Better corporate governance leads to

higher returns on equity and greater efficiency. Akbar, Poletti-Hughes, El-Faitouri, and Shah (2016) examined the relationship between corporate governance compliance and firm performance in the UK and they suggested that compliance with corporate governance regulations is not a cause of corporate performance in the UK. They contended that a positive impact of corporate governance on firms' performance of some studies may be biased as they failed to control for potential endogeneity. A possibility of reverse causality might be there to which changes in the internal characteristics of firms may be responsible for the corporate governance compliance and performance relationship. Complying with the corporate governance best practice should essentially be considered as a good sign for perspective investors. The insignificant relationship found between the governance index and corporate performance might be attributed to the fact that firms that comply with the corporate governance might not have higher profitability and higher market value or such firms choose their level of corporate governance compliance depending on internal firm characteristics as compared to their counterparts that do not comply.

Shahid and Abbas (2019) found a substantial influence of investor confidence on corporate investment decisions as they noticed that firms with good corporate governance brings more investment and improves board members' monitoring function. Corporate governance can moderate shareholders' interests and enable firms to make the right decisions. Ararat, Black, and Yurtoglu (2017) studied the corporate governance practices of Turkish public firms as the authors built a Turkey Corporate Governance Index (TCGI) composed of sub-indices for board structure, board procedure, disclosure, ownership, and shareholder rights. They found that corporate governance improves performance and profitability. They also found that most firm-specific factors including the need to access outside capital do not predict firms' governance choices. From their study results, the authors suggested that some mandatory minimum disclosure rules should be there to increase firm market values. They argued that their findings file a strong association between governance and firm market value in a comprehensive sample of Turkish listed firms.

The ownership structure in the GCC countries is highly concentrated with large block-holders such as wealthy families, government and quasi-government institutions (Santos, 2015). Abdallah and Ismail (2017) investigated the relationship between performance and governance subject to different levels of ownership concentration of listed firms in the GCC countries, and also to different types of majority shareholders and found that the relationship between governance and firm performance is an increasing function of dispersed ownership and that the value addition of good governance is not necessarily maintained at higher levels of ownership concentration. The relationship reaches its highest level when the government or local firms are the firm's major shareholders. The authors support the view that the effectiveness of corporate governance mechanisms must be considered conditional on the ownership structure of the firm. The value addition of good governance is not necessarily maintained at high levels of

ownership concentration. The positive effects of corporate governance on performance is the highest when the majority of shareholders are the government or local corporations.

Al Maskati and Hamdan (2017) examined the relationship between corporate governance and voluntary disclosure of firms listed on Bahrain stock exchange and found that there was a positive relationship between ownership of the largest shareholder, size of the board of directors and independency of the board of directors with voluntary disclosure. There was a significant positive relationship between ownership of the largest shareholder, size of the board of directors and voluntary disclosure. Market capitalization had a positive association with voluntary disclosure as the higher the firm is valued in the market, the higher the number of stakeholders. Firms with high corporate governance were small-sized firms as they tended to have a better controlling mechanism. Firms with a high corporate governance level have less financial debt, and young firms were having higher corporate governance. Information disclosure regarding the social responsibility of the firm tended to be higher when the firm has high corporate governance. Listed firms were transparent in terms of profit and liquidity ratios. Sapci and Miles (2019) stated that cost efficiency returns increase when a bank increases in size.

Based on the above discussion, the hypothesis can be developed as follows:

*H1: There is no statistically significant relationship between the characteristics of corporate governance and stock prices in listed companies in the GCC financial markets.*

There are four sub-hypotheses that aim to study the impact of each characteristic of corporate governance on stock prices in the GCC financial markets.

### 3. METHODOLOGY AND VARIABLES MEASUREMENT

#### 3.1. Study population and sample

The study population covers the financial markets of the four (GCC) countries covering industry and service sectors. The study sample includes 237 firms that completed all the data needed to estimate the study variables for the period (2013-2017). The study was based on the GCC financial markets' database, financial statements and ancillary notes which include corporate governance, stock prices by Bloomberg and share location. The following table shows the study population and sample:

**Table 1.** Study population and sample

Stock Exchange	Study sample	Observed firm years
Saudi Arabia	94	470
Bahrain	33	165
UAE	64	320
Oman	46	230
Total	237	1185

#### 3.2. Study model

This study examines the relationship between corporate governance and stock prices in the GCC financial markets. In order to achieve the best representation of this relationship, a multi-

regression model was used. The independent variables were four characteristics of corporate governance and the dependent variable was the stock price and its yield. A number of control

variables was used in the model. In the first study model, four corporate governance variables were used as independent variables, as follows:

$$SPR_{i,t} = \alpha + \beta_1 Ownership_{i,t} + \beta_2 BoardSize_{i,t} + \beta_3 Indep_{i,t} + \beta_4 Duties_{i,t} + \beta_5 CSize_{i,t} + \beta_6 EPS_{i,t} + \beta_7 Leverage_{i,t} + \beta_8 Growth_{i,t} + \sum_{k=1}^{n=7} \beta_k Sector_{i,k} + \varepsilon_i \quad (1)$$

Whereas:

- $SPR_{i,t}$ : Dependent variable - Stock price return ( $i$ ) per year ( $t$ ).  
 $\alpha$ : Constant value.  
 $\beta_1 \dots \beta_8$ : Inclination of independent and control variables.  
 $Ownership_{i,t}$ : First independent variable - Corporate governance criterion of directors' for ownership ratio in firm's shares ( $i$ ) per year ( $t$ ).  
 $BoardSize_{i,t}$ : Second independent variable - Corporate governance criterion for board of directors' size ( $i$ ) per year ( $t$ ).  
 $Indep_{i,t}$ : Third independent variable - Corporate governance criterion for board independence ( $i$ ) per year ( $t$ ).  
 $Duties_{i,t}$ : Fourth independent variable - Corporate governance criterion for segregation of duties of board chairman and CEO ( $i$ ) per year ( $t$ ).  
 $CSize_{i,t}$ : Control variable - Firm size ( $i$ ) per year ( $t$ ).  
 $EPS_{i,t}$ : Control variable - EPS ( $i$ ) per year ( $t$ ).  
 $Leverage_{i,t}$ : Control variable - Leverage ( $i$ ) per year ( $t$ ).  
 $Growth_{i,t}$ : Control variable - Growth opportunities ( $i$ ) per year ( $t$ ).  
 $Sector_{i,k}$ : Control variable - Sector type ( $i$ ) of seven sectors ( $k=7$ ).  
 $\varepsilon_i$ : Random error.

between 1% and not more than 30% of total shares, and this rule is given the code (Ownership).

*The second rule:* the size of the board of directors, so that the number of members of the board of directors must be between 6 and not more than 15, and this rule has been given the symbol (BoardSize).

*The third rule:* the independence of the board of directors, so that the board of directors must be composed of at least 50% of independent members from outside the firm. This rule has been given the code (INDEP).

*The fourth rule:* segregation of duties, so that the duties of the board chairman CEO must be separated, and this rule has been given the symbol (Duties). In order to measure these rules, dichotomous variables were used where the number (1) is given to the firm if it achieves the corporate governance condition, and the number (0) if this condition is not met.

### 3.3.3. Control variables

The control variables help to adjust the relationship between the independent and dependent variables and reduce the random error in the model. It better represents the dependent variable and contributes to show the relationship of other variables with the dependent variable. The study has incorporated the following control variables:

### 3.3. Measurement of variables

The study used a range of variables' measures, based on previous studies which were further developed, and selected to suit disclosed data of the four GCC financial markets. The following is the measurement method of dependent, independent, and control variables.

#### 3.3.1. Share prices

Share prices were reached by using the firm's average share price during the year. Share return was calculated based on an average of earning per share during the year, which today's return minus yesterday's return, divided by yesterday's return.

#### 3.3.2. Corporate governance quality

To measure corporate governance quality, notes of financial statements disclosed in the four GCC financial markets were used to determine the extent to which firms meet corporate governance quality requirements. Four corporate governance rules were used among a group of rules provided by the international organization (Institutional Shareholder Services, ISS), divided into eight categories:

*The first rule:* ownership ratio of directors, so that the share of directors in the firm must be

#### Company size:

Small and new firms have limited ability to borrow and finance by issuing shares. The reason that these firms are not well known by investors in the financial markets. Therefore, firms, in this case, rely on retained earnings as the main source of ownership funding and have a tendency to hold a large proportion of profits (Al-Maydani, 2010). On the other hand, large firms have greater opportunities to access the internal and external financial markets and are less dependent on the profits withheld for financing their investments. Therefore, the size of the firm was taken as one of the control variables, measured through the natural logarithm for the total assets of the firm, and given the code (CSize) which is expected to have a positive relationship with the distributions. Sapci and Miles (2019) studied the impact of bank size on cost efficiency and returns to scale and found that all, except largest banks, show increasing returns to scale. The bidirectional relationship between bank size returns to scale, and cost-efficiency was analyzed showing that an increase in bank size decreases bank's probabilities to make use of returns to scale, while cost-efficiency returns increase when a bank increases in size. Therefore, the firm's performance is positively associated with its size (Onyina & Gyanor, 2019).

Profitability of the firm:

The firm's current or past profits, which appear in the form of withheld profits, affect the profit distribution policy and is one of the most important factors the decision-maker can make. If these profits are one of the firm's internal sources of finance, the remainder is often distributed to the shareholders. This variable was included in the control variables after earnings per share (EPS) which was used as a proxy variable and is expected to have a positive relationship with the distributions. Sales growth as a result of good corporate governance positively affects a firm's profitability (Onyina & Gyanor, 2019).

Limitations of loan agreements:

The loan agreements taken by the firm place restrictions on the management freedom to distribute profits, as such agreements might bind the firm not to distribute dividends to shareholders after the loan is taken, or if the working capital decreases from a certain level an increase in firm's loan would also reduce its cash flow, thus avoiding the agency's problems. Therefore, it is expected to have an inverse relationship between restrictions of loan agreements and profit distributions to shareholders. Loan agreement restrictions were measured by the financial leverage, the debt-to-total asset ratio (Al-Maydani, 2010).

Firm's growth opportunities:

Firms that grow rapidly need to be heavily funded to meet expansion needs. Such firms work to explore all sources of funding and to keep a large amount of profits to finance property needs (Al-Maydani, 2010). Therefore, the growth opportunities variable was included in the study as a control variable and was expressed as an asset growth rate for the current year compared to the previous year. This variable was given the code (Growth) and is expected to be inversely related to the rate of dividends to shareholders.

Sector type:

Profit distributions vary from one economic sector to another, as some sectors have a continuous and stable profit distribution and others differ from one period to another. Therefore, the industry variable influences the profit distribution policy. The study uses the sector type as a control variable (industry dummies), as (1) for the firm and (0) for other firms in the sectors.

**4. DESCRIPTIVE STUDY**

The descriptive study focuses on differences of study variables based on levels of corporate governance and control variables of the firm such as size, earning per share, leverage, and growth rate as shown in Table 2.

**Table 2.** Study variables and control variables

Variables	Mean	Median	Standard deviation
Stock price return	1.497	2.701	61.004
Firm size	507514.700	117844.100	1691790.100
Financial leverage	0.645	0.518	1.283
Firm's growth	0.444	0.028	3.056
Corporate governance index	0.583	0.550	0.320

The table shows 1.497 return on shares in the Gulf companies, with a high standard deviation, indicating a large difference in returns on shares. Leverage refers to the rate of liabilities to assets, and the firm's dependence on debt to finance its assets. It has been observed that the average dependence of the Gulf companies on debt to finance is more than 64%, with a high standard deviation and a large difference between the first and last quarters. It is attributed to the high dependence of the Gulf companies on debt to finance their assets. The growth rate is 44.4%, with a great variation.

**Table 3.** Corporate governance characteristics

Corporate governance characteristics	Frequency of 1's		Frequency of 0's	
	Frequency	%	Frequency	%
Percentage of ownership of the board of directors	348	49.7	352	50.3
Size of the board of directors	292	41.7	408	58.3
Independence of the board of directors	376	53.7	324	46.3
Separation of duties	468	66.9	232	33.1

Corporate governance characteristics and the extent to which the Gulf companies fulfill them are shown in Table 3, with iterations and percentages that appear as dichotomous variables. The *Separation of duties* was one of the most characteristics that the Gulf companies committed to (67%), followed by *Independence of board of directors* (54%), followed by *Percentage of ownership of board of directors* (50%), and finally, the least was *Size of board of directors* by (42%).

**5. HYPOTHESES TESTING AND RESULTS DISCUSSION**

To test other indicators on the relationship between stock price and corporate governance, a regression analysis was used which was controlled with a number of control variables. The Ordinary Least Squares (OLS) method was used because the *Stock price return* variable was a continuous variable. Table 4 shows that the *Corporate governance index* variable had a positive impact on return on stock policy with a significance of less than 5%. This indicates that companies that have a good level of corporate governance can increase return on stock, and this result leads us to accept the hypothesis that good corporate governance improves the corporate image and increases the returns for shareholders.

**Table 4.** Corporate governance index

Variables	Ordinary Least Squares	
	T-test	P-value
Ownership	1.981	0.031
BoardSize	0.001	0.984
Indep.	1.175	0.231
Duties	2.449	0.014
Gov-score	0.000	0.000
CSize	5.331	0.000
EPS	14.956	0.000
Leverage	1.231	0.209
Growth	0.439	0.647
R <sup>2</sup>	0.439	
Adjusted R <sup>2</sup>	0.424	
F-Test	27.188	
p-value	0.000	

A positive relationship was found between the return on stock and corporate governance quality. The Gulf companies that have increased levels of corporate governance have increased returns on shares, indicating that these companies are working to reduce the agency's cost and eliminate the conflict between shareholders and directors. Based on this positive relationship, with the assumption that companies within the four countries share the same nature, it is recommended to promptly prepare and issue unified standards for corporate governance in the Gulf, guided by best practices in this field from developed countries. Therefore, the Gulf companies are invited to further adhere to best practices of corporate governance, as this has implications for more transparency and justice as well as reducing disputes and conflicts of interest. Companies are to implement study findings that strengthen their positions in the financial market and attract investors when such investors find a strong and positive relationship between corporate governance, company size and profitability.

## 6. CONCLUSION

Some studies have shown that there is a relationship between corporate governance and firms' performance in the market. The impact of the board of directors' composition on firms' image can be measured and can guide investors to make the right investment decisions. This is important as many

investors are interested to know the level of corporate governance and how transparent the firm is in financial management. These researches have been tested in several financial markets but have not sufficiently been conducted in the emerging Arab financial markets, particularly in the GCC financial market. The current study has tested the relationship between corporate governance and stock prices in 237 companies listed in the GCC financial market.

The study has developed advanced models to test the relationship between stock prices and corporate governance. The measurement of study variables is based on the secondary data gathered from firms' financial statements and the Gulf financial market disclosures. It is concluded that there is a positive relationship between board ownership to the company's shares and stock prices. This gives investors a positive indication that the management works for the stakeholders' interests and that the members are part of the owners which encourages the investors to invest in the company. The results also show that the separation of the two positions, CEO and Chairman, can positively influence stock prices due to the high degree of corporate governance in the company. The results did not show high effects on the board size or board independence, and these factors may not affect investors' decisions in the emerging markets.

As with other previous studies, this study has some limitations. Financial firms are excluded from this study, and four out of six GCC financial markets are covered. Future research should consider these points for more interesting findings within the region. The GCC financial markets need to keep in line with the developments of the corporate governance practices in the developed markets and further understand the impact of these practices on stock prices within the uniqueness of the business environment. The sample size can cover all the GCC financial markets for more representative results. The inclusion of financial firms can also give new findings. The new code for a family business can be used in the future for new findings. Finally, this paper followed a quantitative approach and can be enhanced when qualitative data is also considered.

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