

CORPORATE GOVERNANCE: THEORIES, MECHANISMS AND THE CASE OF OIL AND GAS EXPORTING DEVELOPING COUNTRIES

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Abstract

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This paper reviews the literature on the quality of corporate governance practices in the oil and gas exporting developing countries (Russia, Venezuela, Nigeria, the MENA, and the GCC countries). We investigate if the internal and external governance mechanisms function efficiently in these countries. The findings of the reviewed literature show that the quality of corporate governance practices in the countries of our focus is not efficient at internal and external levels. Regarding the internal mechanisms, weak governance mechanisms originate from low transparency levels and give rise to poor voluntary disclosure in the firms. However, some internal mechanisms are more efficient in some of these countries as presented in the conclusion section. Regarding the inefficiency of external mechanisms, all the studied countries share common characteristics with respect to weak legal systems, inefficient law enforcement infrastructures, and low levels of protection for properties, investors, and shareholders especially the minority ones.

Keywords: Corporate Governance, Oil and Gas Countries, Board Structure, Legal System, Ownership Structure

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1. INTRODUCTION

Corporate governance as an important topic has attracted the interests of many researchers in different fields, such as economics, finance, law, management, and accounting (Bebchuk & Weisbach, 2010). Good corporate governance is associated with lower credit risk levels and higher operating performance in the firms (Saidi & Kumar, 2008). It also contributes to sustainable economic development (Kraay & Kaufmann, 2002; Saidi & Kumar, 2008) and enhances the quality of corporations and investment environments (Saidi & Kumar, 2008). First, better governance can maximize shareholders' value through increasing the quality of

corporate decision-making (Aggarwal, Erel, Stulz, & Williamson, 2009), and second, it protects the investors' rights and therefore, gives rise to foreign and domestic investments through implementing corporate governance codes and supervising management teams (Saidi & Kumar, 2008). As such, there is a positive relationship between good governance and firm performance (Tricker, 2019). Accordingly, numerous theories have contributed to improving the governance of firms with the ultimate purpose of maximizing shareholders' values as well as that of the stakeholders. As per the literature, some of the most important corporate governance theories include agency theory, stewardship theory,

stakeholder theory, free cash flow theory of takeovers, transaction cost theory, and resource dependency theory. Showing different performance in country levels, each of these theories has challenged various aspects of corporate governance.

In one definition, corporate governance is a set of economic and legal institutional and market-based mechanisms for decision-makers to help them operate their corporations in a way that they can create the maximum value to their capital suppliers (Denis & McConnell, 2003) and assure them of receiving a profit on their capital (Shleifer & Vishny, 1997). These mechanisms can be categorized into two groups: internal or firm-level and external or country-level. Board and ownership structures are related to internal mechanisms while the legal system, law enforcement, takeover market, and cultural issues are discussed at the country or external level (Aggarwal et al., 2009; Denis & McConnell, 2003).

From another aspect, corporate governance concentrates on solving the agency problem that originated from the ownership-management separation through designing incentive contracts and empowering investors so that they can protect themselves from managerial opportunism. Legal protection and ownership structure are two main mechanisms that give more power to investors. Protection of investors and minority shareholders' rights from managerial expropriation are examples of legal protection. Moreover, concentrated ownership formed by large investors is an ownership structure approach that may reduce agency costs. Consequently, good corporate governance is the one in which large investors legally protect their own rights as well as those of small investors (Shleifer & Vishny, 1997).

Corporate governance mechanisms do not function similarly in different countries. Even their quality differs in various industries. As such, the aim of this paper is to study the quality of corporate governance practices in the oil and gas industry in oil exporter countries. In other words, based on the literature we try to answer these questions. First, *What factors distinguish the quality of corporate governance practices in oil exporter countries?* Second, *From what aspects governance mechanisms are stronger or weaker in oil exporter countries?* The concluding points of this review study can be useful for those investors and companies active in the oil and gas industry that intend to invest in related projects in the studied countries.

The remainder of the paper is structured as follows. Section 2 presents a short review of the principal corporate governance theories. Then, the internal and external governance mechanisms are discussed in Section 3. Afterwards, in Section 4 we review the characteristics of corporate governance in the oil and gas exporting developing countries. Finally, the conclusion is presented in Section 5.

2. CORPORATE GOVERNANCE AND THE AGENCY THEORY

Strategic corporate decisions made in the executive levels of the companies are accompanied by financial consequences and thus are not separated from corporate governance (Damodaran, 2010) that is a system through which, corporations are directed

and supervised (Shaw, 2004). Corporate governance defines the rights and responsibilities of all corporate participants such as board members, managers, shareholders, and other stakeholders; makes the rules and regulations for decision-making; sets the objectives of corporations; and monitors the process of goal achievement and corporate performance. Therefore, it is more about finding ways to assure that corporate decisions are made efficiently without being influenced by the power (Shaw, 2004). Accordingly, corporate governance as a subdivision of corporate finance mainly tries to keep and increase the responsibility of managers to both internal and external owners through controlling and motivating mechanisms, and through decreasing the conflicts between stockholders, bondholders, and manager so that the interests of shareholders are best satisfied (Damodaran, 2010). Therefore, considering the important role of corporate governance and its tight relationship with corporate performance, the root cause of the problem is briefly reviewed in this section.

Agency theory, initially presented by Jensen and Meckling (1976), is explained as a contract under which shareholders delegate directors to do some services including corporate decision-making on their behalf. As such, it concentrates on the conflict of interests between managers/owners and shareholders, and between equity holders and debt holders (Jensen & Meckling, 1976). From a corporate governance perspective, Core, Holthausen, and Larcker (1999) demonstrated that weaker corporate governance quality is associated with more agency problems and worse firm performance (Core et al., 1999).

Agency theory's attitude to problems arising from cooperative environments is unique, pragmatic, and empirically testable (Eisenhardt, 1989). These problems may arise in three forms.

1) *Principal-agent problem* (Panda & Leepsa, 2017) or *managers-shareholder conflicts* (Myers, 2001). This problem emerges for these reasons. First, the separation of control from ownership. Shareholders appoint managers to administrate the firms in their interest. This separation, from one side, reduces the monitoring level of the owners on the managers, and from the other side, may encourage the managers to pursue their self-interest through owning stock ownership, receiving compensation, seeking higher salaries, and job security. This situation will lead to a conflict of interests between the owners (principals) and the managers (agents) (Myers, 2001; Panda & Leepsa, 2017). Smith (1937) stated that we cannot expect directors to take care of the others' money with the same attention as they would pay to their own money. Second, the duration of involvement. The fact that managers work for the owners based on short-term contracts causes them to maximize their wealth before moving to another company. Third, information asymmetry. Owners should wait for the managers to provide them with the internal information. As the result, they may not properly receive the precise information (Panda & Leepsa, 2017). Finally, moral hazard. Owners confide in managers' knowledge in accepting risky projects. Moral hazard occurs when the managers invest in such projects without being informed of the risks

associated with them (Panda & Leepsa, 2017). One way to reduce this problem is to monitor managers' activities. However, this method is costly and reduces the returns. Another way is to converge the interests of the owners and the managers through making compensation plans (Myers, 2001) and concluding outcome-based contracts (Eisenhardt, 1989). This solution has also some limitations. First, managers do not accept the total costs that their decisions impose on the shareholders unless they themselves are the owners. Second, it is not easy to measure the managers' performance as it is not observable (Myers, 2001).

2) *Principal-principal problem* or *major-minor shareholders conflicts*. Two factors give rise to this problem. First, decision-making. The majority shareholders are decision-makers in the firms because of their high voting rights and the minority shareholders have to follow them (Panda & Leepsa, 2017). Second, the retention of earnings. The majority shareholders, unlike the minority ones who prefer to receive the earnings in the form of dividends, tend to retain them for future risky investment opportunities (Panda & Leepsa, 2017).

3) *Principal-creditor problem* (Panda & Leepsa, 2017) or *debtholders-equity holders conflicts* (Myers, 2001). This problem is related to two factors. However, these two factors may result in the principal-agent problem as well. First, limited earnings. Both managers and creditors compete with each other for the firm's limited earnings for compensation and loan interest purposes, respectively (Panda & Leepsa, 2017). Second, risk preference. Managers, shareholders, and debt holders have different risk approaches and perceptions. Accordingly, the conflict of interest happens between these groups while making investment decisions (Panda & Leepsa, 2017). Managers know that equity is a claim on a firm's residual and thus, any collapse in debt value will benefit the shareholders more. Accordingly, they try to transfer the debt costs to the debt holders rather than to their shareholders by making investments in riskier projects. They may also increase the borrowed amounts to pay them out to their shareholders. This action will result in a decrease in debt's market value because borrowing does not affect the firm's overall value. Moreover, they may decrease the firm's equity-financed investments so that they do not return that part of the generated value that belongs to the creditors. In other words, an increase in debt's market value functions the same as the tax on investment, meaning that in situations where the tax rate is considerably high, managers prefer to reduce the firm's size and pay out the cash to the shareholders. In return, creditors try to adjust the debt contracts in a way that additional borrowing, as well as dividend payouts to shareholders, are restricted (Myers, 2001).

3. CORPORATE GOVERNANCE MECHANISMS

Corporate governance mechanisms are external and internal. Aggarwal et al. (2009) put these mechanisms into two groups: country-level and firm-level. Country-level mechanisms, such as laws, culture, and norms of each country, as well as the law enforcement institutions in that country, are related to external factors. Firm-level mechanisms, such as ownership structure, management compensation,

audit, and board are internal corporate factors (Aggarwal et al., 2009). In another classification, Denis and McConnell (2003) classified the board of directors and ownership as internal mechanisms, whereas the takeover market and legal system as external ones. Based on this classification, we review internal mechanisms within the framework of the board of directors and ownership structure. Furthermore, we investigate external mechanisms in the context of the takeover market and legal system.

3.1. Internal mechanisms

Among all internal corporate governance mechanisms, we concentrate on 1) board of directors including board composition and management compensation, and 2) ownership structure in the form of managerial (insider), governmental, and concentrated (institutional and large) ownership.

3.1.1. Board of directors

Board of directors hires, dismisses, and compensates corporate executives and managers (Adams, Hermalin, & Weisbach, 2010; Baysinger & Butler, 1985; Denis & McConnell, 2003) with the purpose of maximizing shareholders' value (Adams et al., 2010; Denis & McConnell, 2003), monitoring managerial activities (Denis & McConnell, 2003) and reducing the owner-manager agency costs (Baysinger & Butler, 1985). Corporate governance and the board of directors are inextricably connected to each other especially in large corporations (Adams et al., 2010; Baysinger & Butler, 1985) in a way that corporate governance reforms require to augment board performance and accountability (Cadbury, 1999). As such, many board-oriented studies are concentrated on the process of selecting directors and on how the board composition affects firm performance and board actions (Adams et al., 2010).

Board composition and management compensation are two mainboard characteristics that have attracted much attention in empirical studies (Denis & McConnell, 2003).

Board composition

Board size and board structure including outside directors, CEO duality, and board gender are the components of board composition. Board size, CEO duality, and board composition are the main factors that affect board effectiveness (Levrau & Van den Berghe, 2009).

Board size affects both the board and firm performance. The studies related to the effect of board size on the firm performance show inconsistent results. Board size can positively influence firm performance through reducing agency costs (Alves, Couto, & Francisco, 2015; Fauzi & Locke, 2012; Hastori, Siregar, Sembel, & Maulana, 2015; Ibrahim & Samad, 2011; Jensen, 1993; Larmou & Vafeas, 2010; Panda & Leepsa, 2017). By contrast, some studies have indicated that board size is negatively related to firm performance (Conyon & Peck, 1998; Guest, 2009) and this may act through reducing the agency costs (Sajid, Muhammad, Nasir, & Farman, 2012; Singh & Davidson, 2003). In a different study, the findings of Topak (2011) showed that board size had no effect on firm performance in Turkey.

The quality of exchanging information and advice between the CEOs and the board is also important. In other words, managers do not tend to share corporate information with the independent board because first, the more the board has access to precise information, the more the CEO might be restricted in decision-making. Second, doing so will increase the board's ability in exercising higher monitoring levels. As such, a CEO-friendly board is preferable when managerial private benefits are not considerable enough. Raheja (2005) investigated the interactive effects of inside and outside board members on the monitoring quality of the board and suggested that board structure is a key determinant of its effectiveness in evaluating investment projects since it affects the flow of information in the board, meaning that outside board members are less informed than the inside ones concerning the projects proposed to the board by the CEO. Consequently, they cannot react effectively in rejecting unprofitable projects or replacing them with profitable ones (Raheja, 2005).

Some of the board structure constituents include the proportion of outside directors on board (i.e., board independence), CEO duality (Denis & McConnell, 2003), and gender diversity (Tricker, 2019). Outside directors are defined as independent board members who do not work for the company and have no considerable dealings with it (Renneboog, 2000). They may have political connections or specialized roles. For example, they may monitor the firm's activities as bankers who are representatives of the lenders. They may also take control of the firm to some degree as venture capitalists who act as the initial founders (Adams et al., 2010). Outside directors are more qualified to make a decision regarding appointing and dismissing the CEOs as well as their compensation since they are not associated with the firm and do not work for it (Chhaochharia & Grinstein, 2009).

Some evidence has indicated that there is a positive relationship between board independence and firm performance (Baysinger & Butler, 1985; Kesner, 1987; Kouki & Guizani, 2015; Lefort & Urzúa, 2008; Liu, Miletkov, Wei, & Yang, 2015; Perry & Shivdasani, 2005; Rosenstein & Wyatt, 1990; Schellenger, Wood, & Tashakori, 1989). Conversely, some rather older researches have demonstrated that outside directors have a negative impact on firm performance (Bhagat & Black, 2001; Coles, Daniel, & Naveen, 2008; Erkens, Hung, & Matos, 2012; Shukeri, Shin, & Shaari, 2012; Yermack, 1996) through increasing the agency costs (Ang, Cole, & Lin, 2000).

CEO duality refers to the case where the CEO and the chairperson are the same (Denis & McConnell, 2003). An effective board requires independent leadership to be able to fulfill its principal duties. On the other hand, the chairperson is responsible for the CEO's employment and the CEO cannot do this function without being affected by personal interests. As a result, CEO duality negatively affects board efficiency (Jensen, 1993). According to agency theory, CEO duality negatively affects the monitoring quality of the CEO (Finkelstein & D'aveni, 1994; Kiel & Nicholson, 2003; Peng, Zhang, & Li, 2007) and makes an overlap between the managing and controlling duties (Fama & Jensen, 1983). Consequently, it will have a destructive effect on firm performance (Peng et al., 2007).

Board gender diversity through the presence of women on board contributes to a firm performance from some aspects. Women board directors enhance board effectiveness from the aspect of operational and strategic control (Nielsen & Huse, 2010). Alves et al. (2015) indicated that gender diversity of board members is positively related to external equity financing, and negatively associated with short-term debt. From the agency theory perspective, board monitoring is an important mechanism in reducing owner-manager conflicts (Campbell & Mínguez-Vera, 2008; Isidro & Sobral, 2015). Women attend monitoring-related board meetings and committees actively and have more participation in monitoring activities (Adams & Ferreira, 2009). Evidence shows a positive relationship between board gender diversity and firm performance proxied by return on equity (Low, Roberts, & Whiting, 2015; Lückerath-Rovers, 2013; Terjesen, Couto, & Francisco, 2016).

Management compensation

The board structure is one of the factors that affect management compensation (Chhaochharia & Grinstein, 2009) which is a fundamental topic in corporate governance. The board of directors appoints the executives to manage the firms and make corporate decisions (Bebchuk & Weisbach, 2010). They decide to compensate managers (Chhaochharia & Grinstein, 2009) so that it works as an incentive to reduce the moral hazard and maximize firm value (Bertrand & Mullainathan, 2001). The quality of executive decisions is a function of directors' considerations, executive compensation, and controlling levels of shareholders. Executive compensation functions as a mechanism of converging the interests of managers and shareholders with respect to firm performance (Denis & McConnell, 2003) because they are paid based on their performance (Woidtke, 2002). Nevertheless, Core et al. (1999) discussed that the greater the agency problems are, the higher CEO compensation, and the lower firm performance will be.

Regarding the relationship between management compensation and board structure, evidence on the impact of outside directors on CEO compensation is mixed. Some scholars have found CEO compensation to be positively associated with the number of external board members (Core et al., 1999; Lambert, Larcker, & Weigelt, 1993), while others have stated that this relationship is negative (Chhaochharia & Grinstein, 2009). In addition, CEO compensation is positively correlated with CEO duality (Core et al., 1999) and board size (Core et al., 1999; Lee & Chen, 2011).

Concerning the ownership-compensation relationship, documents show that ownership structure affects management compensation in a way that executive pay will be higher when outside block holders and institutional investors do not possess a large portion of the firm's stock (Bebchuk & Weisbach, 2010; Chhaochharia & Grinstein, 2009). In contrast, Lee and Chen (2011) documented that institutional ownership is positively correlated with CEO compensation. Moreover, the effect of managerial (insider) ownership on CEO compensation is positive (Lee & Chen, 2011).

3.1.2. Ownership structure

In the literature, the ownership structure is often discussed in any form of concentrated (institutional and large), managerial (insider), and governmental ownership. In many cases, there is an overlap between ownership and control in many corporations, meaning that they are not completely separated from each other. In other words, controllers may own some equity of the firms under their control, and owners may have control over their firms with respect to the level of their ownership. The more the percentage of the owned equity is, the stronger the relationship between ownership and control will be, and thus, the lower the conflict of interests between controllers and owners would be (Denis & McConnell, 2003). As such, outsider and large ownerships are positively connected to the monitoring quality of concentrated owners since the high equity stake held by them makes the profits of monitoring greater than its costs (Dharwadkar, George, & Brandes, 2000). Many studies have concentrated on analyzing the impact of ownership structure on firm value. Demsetz and Lehn (1985) indicated that the changes of ownership structure systematically take place in the direction of maximizing firm value. Woidtke (2002) found that in cases where investors own public and private pension funds in a firm, the value of the firm is positively and negatively related to private and public fund ownership, respectively. The positive relationship between firm value and private fund ownership is explained by the importance of the high performance-based compensation of private fund managers in converging their interests with those of shareholders. The negative effect related to public pension funds may be because of the stronger effects of social and political factors on fund managers that can negatively affect their performance (Woidtke, 2002).

Concentrated (institutional and large) ownership

Institutional investors are more motivated to supervise the firms as they own a larger portion of their stocks. They prefer to invest in companies with good governance quality in terms of trustworthy responsibilities, controlling costs, and higher liquidity (Chung & Zhang, 2011). In most cases, their perception of good governance is formed when the companies avoid exposing themselves to risky positions (Tricker, 2019). They improve the governance of the firms in which they have invested, either directly through influencing the directors to use their voting rights, or indirectly by trading their shares to increase or decrease the percentage of their ownership stock (Aggarwal, Erel, Ferreira, & Matos, 2011). Aggarwal et al. (2011) showed that there is a positive relationship between institutional ownership and corporate governance. They concluded that institutional investors with strong legal systems in their own countries to protect the rights of minority shareholders improve the governance of target firms in other countries. Small shareholders, however, are not much interested in spending on controlling mechanisms to influence managers and their decisions. In contrast, outside block holders who have more controlling power, are more inclined to supervise managers and

affect corporate decision-making. Accordingly, they will positively affect the firm value if they share the benefits of control in the interest of other shareholders.

In another research regarding the effects of large ownership on firm value, Claessens, Djankov, Fan, and Lang (2002) concluded that in most studied countries, the ownership structure is concentrated and the cash flow ownership by large shareholders increases firm value. Conversely, the entrenchment effect decreases firm value when the largest shareholder has more control rights given its cash flow ownership (Claessens et al., 2002). Ferreira and Matos (2008) investigated the behaviour of institutional investors and indicated that large foreign and independent investors have lower capital expenditures, better firm performance, and higher firm value. In addition, all institutional investors prefer to purchase the stocks of large firms with good corporate governance quality (Ferreira & Matos, 2008). Oppositely, the results of some other studies show a significantly negative relationship between institutional ownership and firm performance (Erkens et al., 2012; Wang, Abbasi, Babajide, & Yekini, 2019).

3.2. External mechanisms

Takeover markets and legal systems are two external governance mechanisms that can improve the quality of the corporate governance practices through increasing the monitoring activities and providing the investors and shareholders with higher protection. In addition to these two mechanisms, some socio-political factors including unstable political situations, uncertain economy, and underdeveloped capital markets play an important role in affecting the corporate governance quality in developing countries.

3.2.1. Takeover market

The takeover market is an external governance mechanism (Farinha, 2003; Rashid, Islam, & Nuryanah, 2014) through which managers compete for corporate resources (Jensen & Ruback, 1983). It also functions as an external disciplining mechanism that monitors the managers (Aktas, Croci, & Simsir, 2015; O'Sullivan & Wong, 1998; Rappaport, 1990) effectively in cases where the internal mechanisms such as board effectiveness and monitoring are not efficient (Aktas et al., 2015). Rappaport (1990) discussed that the market for control is the most effective controlling tool that has changed management attitudes and has disciplined management autonomy. Manne (1965) argued that only a takeover mechanism is able to improve managerial efficiency and provide the minority shareholders with strong protection.

Denis and McConnell (2003) indicated that insufficient internal mechanisms can increase the gap between a firm's actual and potential values so highly that makes it an attractive takeover target for outside companies. In such cases, managers fearing the probable changes in management and control may be tempted to increase the firm's value to a degree that the firm will no longer be a takeover target. Although this mechanism, through reducing the agency costs, often leads to an increase in

the values of both target firms and old shareholders, it brings up another problem. In other words, shareholders may interpret this strategy as an opportunistic action used by those managers who waste the cash on overvalued acquisitions only for the purpose of empire building instead of paying it out to shareholders (Denis & McConnell, 2003).

3.2.2. Legal system

Low protection of minority shareholders as a sign of poor corporate governance increases agency problems (Dharwadkar et al., 2000). Finance providers including investors and shareholders provide the firms with cash to earn some control rights on the firm's assets as well as the right to vote for those board members who, as their representatives, will supervise the firm's executive activities to their interests. Consequently, they can indirectly affect corporate decision-making in some important fields. Legal protection helps financiers to refer to the courts in situations when managers follow self-dealing behaviours or violate their contracts. In some cases, the legal system restricts managers' actions and forces them to respect the rights of minority shareholders or obtain the board's approval before making important decisions (Shleifer & Vishny, 1997).

Legal protection of investors differs from one country to another one. In some countries, the rights of shareholders are more protected than those in other countries. Therefore, relying on legal protection as the sole mechanism in protecting the rights of investors, cannot guarantee the return of their investments (Shleifer & Vishny, 1997). La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) discussed that common-law-based countries have higher investor protection systems than those that are ruled by civil laws. In countries with strong investor protection, legal institutions play a key role in improving the governance of the firms (Aggarwal et al., 2011).

4. CORPORATE GOVERNANCE IN OIL AND GAS EXPORTING DEVELOPING COUNTRIES

The literature classifies oil and gas countries based on their membership in the Organization of the Petroleum Exporting Countries (OPEC). Accordingly, Kuwait, Saudi Arabia, the United Arab Emirates, Algeria, Nigeria, Iraq, Libya, and Venezuela are OPEC members. Russia, Bahrain, and Oman are OPEC plus members since they may affect the production level and pricing decisions as non-OPEC members. Moreover, Qatar does not fit into this category since this country joined OPEC in 1961, a year after it was founded, and left in 2019. In this paper, we also concentrate on the OPEC and the OPEC plus countries. However, these countries are regrouped into few subgroups. The first group includes the MENA (Middle East, North Africa) countries which comprise Algeria, Bahrain, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. The second subgroup is the GCC (Gulf Cooperative Council) countries which consist of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Because the countries in each subgroup are very similar in terms of culture,

language, location, and corporate governance, we concentrate on these two subgroups. However, Russia, Venezuela, and Nigeria are neither part of GCC nor MENA and are studied separately in this paper.

4.1. Corporate governance in the MENA region¹

High economic growth in the MENA countries during recent years aligns with the prosperous oil exploitation projects as well as the growth of firms' free cash flows have caused investors and lenders to demand for implementing corporate governance standards (Mertzanis, Basuony, & Mohamed, 2019). Moreover, governance and bureaucratic quality (Aysan, Nabli, & Véganzonès-Varoudakis, 2007; Kobeissi, 2005), rule of law, low corruption level, stable political system (Aysan et al., 2007), transparency, economic freedom, and an improved legal system to protect the rights of the creditors and shareholders (Kobeissi, 2005) are some key determinants of private investment decisions in the MENA region (Aysan et al., 2007) that contribute to foreign direct investment in the MENA countries (Kobeissi, 2005). On the other hand, in order to improve the investment infrastructures to join the international markets, the MENA countries have made some macroeconomic changes together with some regulatory reforms in the capital markets. These reforms have increased the quality of corporate governance practices in the MENA region (Mertzanis et al., 2019).

Nevertheless, corporate governance quality in the MENA region is lower than that in developed countries. Although the globalization of financial markets together with recent innovations in these markets have necessitated the existence of improved corporate governance systems (Sourial, 2004), the corporate governance quality in the MENA region is still different from that in developing countries (Piesse, Strange, & Toonsi, 2012). The MENA countries are in the initial stage of improving their corporate governance practices compared to some developed countries like the UK whose governance code dates back to 1992 (Shehata, 2015). Sarhan and Ntim (2019) concluded that in general, voluntary compliance and corporate governance disclosure levels in the MENA listed companies are lower than those in developed countries (Sarhan & Ntim, 2019).

Nakhle (2017) evaluated the management quality of nine Arab oil exporters based on five main components of the value chain in the oil and gas sector and compared the results with those in Norway as a benchmark. These five sections include the allocation of contracts and licences, regulations and monitoring, tax collection, income management and distribution, and sustainable development. The findings of this research showed that Norway had good governance in the oil and gas sector followed by Kuwait and Oman with weak performance. Afterwards, Qatar, the United Arab Emirates, Bahrain, Iraq, Saudi Arabia, and Algeria were categorized as countries with poor governance quality and finally, the last position belonged to

¹ In 2019, the region earned an income of \$403,501 billion from exporting crude oil. This amount represents 40% of the global exports, and 19.18% of the region's total GDP in 2019. On average, the MENA region's GDP ranked 57 among all other countries in 2019.

Libya with failing quality. Kuwait earned the second-ranking owing to its low corruption level and strict laws and regulations (Nakhle, 2017). This difference in governance quality is more obvious from the aspects of low transparency and disclosure levels as well as high-concentrated ownership in the form of family and state ownership (Piesse et al., 2012). Nakhle (2017) concluded that Norway's superior performance in the oil and gas sector refers to a collection of factors such as a transparent fiscal regime and effective management in a complete petroleum system in which the roles and responsibilities have been well defined. Nonetheless, the key factor that distinguishes this country from the MENA countries is its higher level of transparency in the management of the petroleum industry (Nakhle, 2017).

In general, corporate governance in this region is characterized by high ownership concentration mainly in the form of state and family ownerships, high ratio of debt to equity financing, underdeveloped and illiquid capital markets with limited participation of foreign investors, privatization, weak legal infrastructures, low investor protection, poor performance, and unclear communication (Shehata, 2015).

4.1.1. Internal mechanisms

According to the literature, the main internal governance mechanisms used in the MENA countries include 1) board composition (board size, board structure, gender diversity, board independence, and CEO duality), and 2) ownership structure including governmental, managerial (insider), and concentrated (institutional and large) ownership.

Board size is an effective internal mechanism in the MENA companies while the effect of CEO duality on firm performance is mixed. Mertzanis et al. (2019) discussed that the impact of corporate governance mechanisms on firm performance in the MENA countries depends on the firm performance measures such as Tobin's Q, return on assets, and return on equity. For example, board size is positively related to all three performance measures, while lack of CEO duality, i.e., the separation of CEO and chairperson is positively correlated only with Tobin's Q and return on assets (Mertzanis et al., 2019). By contrast, Rashid et al. (2014) found that CEO duality is positively associated with a firm value measured by Tobin's Q. Al-Najjar and Clark (2017) concluded that the board size between seven and nine in MENA countries mitigates the manager-shareholder agency problem by reducing the level of cash holdings.

Interestingly, board independence does not function efficiently in the MENA region. The relationship between the number of outside directors and firm performance is significantly negative based on all three measures, i.e., Tobin's Q, return on asset, and return on equity (Mertzanis et al., 2019). Similarly, Arayssi and Jizi (2019) documented that firm profitability, scaled by the return of assets and return on equity is negatively related to board independence (Arayssi & Jizi, 2019).

Sarhan and Ntim (2019) argued that although the board structure in the MENA countries is mainly

composed of national male directors, the higher proportion of women on board increases both firms' financial performance and market value. Arayssi and Jizi (2019) documented that board gender diversity positively affects firm performance through its more effective monitoring role on management activities. Mertzanis et al. (2019) indicated that the relationship between firms' financial performance and board gender diversity represented by the proportion of women on board is significantly positive, explaining that the participation of women on board contributes to firm performance through running multiple tasks and doing better monitoring.

Ownership structure in the form of concentrated (institutional and large) and managerial (insider) ownership positively affects firm performance in the MENA firms. Conversely, the relationship between firm performance and governmental ownership is negative.

Regarding the concentrated (institutional and large) ownership, Mertzanis et al. (2019) showed that institutional ownership is positively related to the performance measures, namely return on assets, return on equity, and Tobin's Q, while insider ownership has a significant positive influence only on return on assets and Tobin's Q. Al-Najjar and Clark (2017) declared that the positive relationship between the institutional ownership and cash holdings in MENA countries implies that institutional managers follow their self-interest and thereby give rise to agent-principal agency conflicts. Arayssi and Jizi (2019) stated that concentrated ownership positively affects firm performance because of its monitoring role in management activities. Concerning managerial (insider) ownership, Farooq (2015) found that higher insider ownership negatively affects firms' debt structure as the result of an increase in information asymmetry. Regarding state ownership, Hassoun and Aloui (2017) showed that governmental ownership negatively affects firm performance scaled by return on assets and return on equity. Nadal (2013) discussed that poor governance, as well as lack of transparency related to state ownership, has hindered growth and development in many MENA countries. Therefore, efficient state-ownership regulations and policies are required to be implemented independently from the ownership (Nadal, 2013).

Finally, voluntary disclosure quality in the MENA companies is negatively related to CEO duality and positively associated with board diversity with respect to gender and ethnicity. It is also negatively correlated with managerial (insider) and state ownership (Sarhan & Ntim, 2019). Moreover, board size and board independence positively affect information risk disclosure. Moumen, Othman, and Hussainey (2016) indicated that larger board size and higher board independence enhance risk disclosure informativeness of corporate projects so that the investors can have a better prediction regarding the firm's future growth and earnings. From the market activists' and investors' point of view, the high proportion of non-executive directors on board increases the control on managers, reduces uncertainties, and augments the board's expertise level. They also found that the effect of CEO duality on informative risk disclosure is not significant (Moumen et al., 2016).

4.1.2. External mechanisms

The legal system, law enforcement procedures, and investors and shareholders' rights protection are the most used external governance mechanisms in the MENA countries according to the literature. External governance mechanisms are not efficient in the MENA countries mainly because of poor law enforcement procedures, weak legal infrastructures, and low protection levels for the investors and shareholders.

Sourial (2004) stated that in the MENA region there is a gap between legislative and enforcement sections. Magrus (2012) mentioned that corporate governance in Libya, affected by social, economic, and cultural factors, is characterized by weak legal systems, inefficient leadership, and insufficient knowledge of managers and investors about corporate governance and good investment decisions, respectively. Braendle (2013) discussed that corporate governance standards in MENA countries are ambiguous, thereby they are interpreted and judged based on personal discretion and foster corruption. In addition, governance standards in these countries are related to high enforcement costs and contribute to court delays. As a solution, clear legal commands or directives mitigate these problems because they are transparent, straightforward, and can be interpreted easily. Therefore, they reduce court delays, personal judgments, and enforcement and monitoring costs (Braendle, 2013).

Some studies have highlighted the positive effects of external mechanisms on firm performance in the MENA region. Rashid et al. (2014) argued that external regulatory procedures that can settle disputes, increase firm performance through strengthening the shareholders' rights, and reducing the principal-agent agency problem in the developing and developed financial markets. Hasan, Kobeissi, and Song (2014) concluded that stronger investment protection and higher property rights are positively correlated with firm performance measured by Tobin's Q in the MENA countries. Further, the impact of property rights on firm value is more significant for the companies with higher managerial entrenchment and greater free cash flows (Hasan et al., 2014).

4.2. Corporate governance in the GCC region²

During recent years, the GCC region has considerably changed in both economic and social fields. Being rich in oil resources, these countries have an oil-based economy. Although the GCC region consisting of six countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates is part of the MENA region, it has been often studied separately in the literature since its members share similar cultural, religious, political, ethnic, and traditional values (Shehata, 2016). These countries follow the common-law system under religious rules (Shehata, 2015) with the same corporate governance quality in terms of having concentrated and family

ownership, weak capital markets, single-tier board structure, poor shareholder protection (Al-Malkawi, Pillai, & Bhatti, 2014), and low levels of corporate governance disclosure (Shehata, 2016).

On the other hand, the existence of stronger financial markets together with the presence of international regulators such as the International Finance Corporation (IFC) and the Organization for Economic Cooperation and Development (OECD) in recent years have encouraged the GCC countries to improve their governance from different aspects such as board composition and investor protection (Abdallah & Ismail, 2017). Accordingly, during the years 2002 to 2010, these countries started developing corporate governance practices through implementing corporate governance codes (Shehata, 2015). They agreed on the implementation of the codes that require board committees to constitute an audit committee composed of independent non-executive directors. They have also followed the standards related to board remuneration and its disclosure (Abdallah & Ismail, 2017). By issuing corporate governance codes, the GCC countries followed two objectives. First, to protect minority shareholders' rights in an environment where the concentrated owners control the firms and make corporate decisions. Second, to raise capital through increasing investors' confidence in the system of capital markets (Al-Wasmi, 2011). Furthermore, the change of management style from traditional to modern in family-owned businesses as well as the interest of new generation in working with western managers from one side, and the government plans with the aim of reducing dependence on oil revenues from the other side (Saidi & Kumar, 2008), have required them to improve their corporate governance through mechanisms that increase their stability, competitiveness, and confidence in a dynamic economy (Baydoun, Maguire, Ryan, & Willett, 2013). These reforms have mainly targeted three sections: 1) regulatory structure that is related to the improvement of controlling and enforcement systems together with the development of independent regulators; 2) corporate governance framework regarding the establishment of corporate governance codes and the reforms in the corporate law system; and 3) educational programs in the context of investment and shareholder rights (Saidi & Kumar, 2008).

In other words, these countries should enact laws with more concentration on enforcement of regulations, increase of board independence, and disclosure of non-arm's length relationships and transactions to be able to develop their financial and commercial innovations in the region. Such mechanisms will also reduce the information asymmetry by providing the shareholders and creditors with higher transparency so that they can execute more disciplinary controls on insiders (Baydoun et al., 2013). Nevertheless, the majority of family firms believe that commercial and operational risks that may affect their overall profitability are more important than concentrating on good governance (Abdallah & Ismail, 2017).

In doing so, the GCC members were inspired mainly by those MENA countries such as Egypt, Jordan, Morocco, and Tunisia that began privatization and economic liberalization plans in the mid-1980s through encouraging foreign investments. Unlike Oman that first issued the code in 2002, Kuwait and

² In 2019, the region's economy grew slowly. In the same year, the GCC members supplied 28% of the world's crude oil and gained an income of about \$280,609 billion, representing 17% of their total GDP. Although the exports of Qatar and the UAE experienced a growth of 32.5% and 13.1%, respectively, in comparison with the year 2018, the average export of the region's countries in 2019 showed a growth of about 4.25%. Furthermore, the region's GDP reached about \$1,648 trillion in 2019. On average, the ranking of the region's GDP was 54th in 2019 among other countries in the world.

Bahrain were the last countries to release the codes in 2010. As far as the law enforcement level is concerned, all these countries have followed the codes based on the voluntary comply-explain rule except for the United Arab Emirates that has issued it on a mandatory comply-penalize basis (Abdallah & Ismail, 2017; Shehata, 2015). Al-Malkawi et al. (2014) indicated that among the GCC countries, the United Arab Emirates ranked first with respect to internal corporate governance mechanisms such as organizational structures and board effectiveness followed by Oman, Saudi Arabia, Qatar, and Kuwait, respectively. This can be due to the mandatory compliance with corporate governance codes and laws in the United Arab Emirates (Othman, 2014), whereas Saidi and Kumar (2008) described it as an effective factor in developing corporate governance quality in GCC companies. Oppositely, Al-Gamrh, Ismail, Ahsan, and Alquhaif (2020) argued that higher investment opportunities negatively affect firm performance measured by return on assets in the United Arab Emirates firms because it will be costly to maintain the invested projects. Therefore, they concluded that corporate governance quality in the United Arab Emirates is weak because it has not been able to reduce the negative effect of growth opportunities on firm performance (Al-Gamrh et al., 2020).

4.2.1. Internal mechanisms

The main internal governance mechanisms used in the GCC region are 1) board composition including board size, and board structure components, such as CEO duality, board gender, and board independence, 2) ownership structure in the form of state, family, managerial (insider), and concentrated (institutional and large) ownership. The literature also discusses the effects of internal mechanisms on disclosure quality.

Corporate governance quality is low in the GCC region. Al-Saidi and Al-Shammari (2014) stated that corporate governance in Kuwait is featured by weak accountability, a poor legal system, and ineffective board composition. The board of directors has mixed effects on firm performance in the GCC region. Unlike CEO duality, board gender diversity functions efficiently in GCC firms. CEO duality negatively affects firm performance while the influence of board gender diversity on firm performance is positive. Regarding the board size and board independence, the effects are not consistent as per the literature. Pillai and Al-Malkawi (2018) studied the effects of main internal governance mechanisms on the performance of both financial and non-financial firms in the GCC region and concluded that in all GCC countries board size has a negative significant impact on the performance of non-financial companies in terms of return on assets and Tobin's Q. In addition, the relationship between CEO duality and both of these performance measures is significantly negative in Oman, and significantly positive for the United Arab Emirates and Kuwait (Pillai & Al-Malkawi, 2018). Board independence and lack of CEO duality are two main governance features in Bahrain (Hussain & Mallin, 2002). Farhan, Obaid, and Azlan (2017) and Hassan and Halbouni (2013) investigated the United Arab Emirates listed companies and concluded that board

independence is negatively correlated with firm performance captured by Tobin's Q and return on assets. Hassan and Halbouni (2013) argued that CEO duality and board size have a significant negative relationship with firm performance measured by return on assets and return on equity, while their correlation with the performance measure scaled by Tobin's Q is not significant. Similarly, Mousa and Desoky (2012) documented that CEO duality is negatively associated with return on assets in Bahraini companies. Al Kuwaiti (2019) discussed that board independence, the proportion of women on board, and separation of CEO and board chair positions have a positive influence on both market and financial performance of the United Arab Emirates firms measured by Tobin's Q, return on assets, and return on equity. Ahmed and Hamdan (2015) found that board size and board independence have a significant positive effect on both financial performance measures, i.e., return on assets and return on equity in Bahrain. Likewise, Aktan, Turen, Tvaronavičienė, Celik, and Alsadeh (2018) documented that board size is positively correlated with return on assets, while independent directors negatively affect the return on equity in Bahrain.

Regarding the ownership structure, family and managerial (insider) ownership positively affect firm performance while the effects of state and concentrated (institutional and large) are mixed.

The effects of ownership structure on firm performance are different in the CGG region. Abdallah and Ismail (2017) documented that the positive relationship between corporate governance and firm performance in the GCC region is significant only when ownership concentration is low. In addition, the highest level of effect exists when the government or local institutions own the firms (Abdallah & Ismail, 2017). Family ownership positively affects market and financial performance of the United Arab Emirates firms based on Tobin's Q, return on assets, and return on equity (Al Kuwaiti, 2019). The share of family businesses in generating gross domestic product (GDP) in the GCC region is the highest after the oil sector, implying that ownership structure plays an important role in the economy of this region. Therefore, family ownership in these countries should be taken into consideration especially that this type of ownership is associated with issues such as transparency, accountability, management structure, and the conflicts arisen from the succession of power, as well as the problems related to setting corrective rules at board level (Abdallah & Ismail, 2017). Pillai and Al-Malkawi (2018) indicated that insider ownership is positively correlated with both return on assets and Tobin's Q measures in the United Arab Emirates. The correlation of this variable with Tobin's Q is negative in Saudi Arabia, and positive in Bahrain and Kuwait. Further, the relationship between insider ownership and return on assets is significantly positive for Saudi Arabia and negative for Qatar (Pillai & Al-Malkawi, 2018).

Al Kuwaiti (2019) argued that state ownership negatively affects the financial performance of the selected United Arab Emirates companies (Al Kuwaiti, 2019). In addition, in the majority of GCC countries, state ownership is significantly and negatively correlated with both performance

measures, i.e., Tobin's Q and return on assets. This is against the hypothesis that the participation of the government in corporations gives them more credibility and increases firm performance since it acts as a monitoring mechanism (Pillai & Al-Malkawi, 2018). The only exception is for Qatar in which state-owned firms are positively associated with Tobin's Q (Pillai & Al-Malkawi, 2018) and return on assets (Pillai & Al-Malkawi, 2018; Zeitun, 2014). However, Zeitun (2014) showed that state ownership positively affects return on assets in Saudi Arabia, Kuwait, Bahrain, and Oman, while its relationship with return on equity is not significant. Similarly, Al-Saidi and Al-Shammari (2015) documented that governmental ownership is positively and significantly associated with firm performance measured by Tobin's Q and return on assets in Kuwaiti listed non-financial firms.

Zeitun (2014) demonstrated that both return on assets and return on equity are positively significantly related to ownership concentration scaled by the ownership percentage of the five largest shareholders in the studied firms in Qatar, Kuwait, Saudi Arabia, Bahrain, and Oman. Al-Kuwaiti (2019) discussed that ownership concentration scaled by the ownership percentage of 5% or more has a positive effect on the United Arab Emirates firms' market and financial performance measured by Tobin's Q, return on assets, and return on equity. Ahmed and Hamdan (2015) indicated that the relationship between return on equity and ownership concentration captured by the ownership percentage of the three largest shareholders is considerably negative in Bahrain. Aktan et al. (2018) documented that ownership concentration is positively correlated with return on assets in Bahrain.

As per Pillai and Al-Malkawi (2018), institutional ownership positively affects return on assets in the United Arab Emirates, Qatar, and Kuwait. This internal governance mechanism is negatively and positively associated with both performance measures in Saudi Arabia and Oman, respectively. However, the results of Al-Saidi and Al-Shammari (2015) showed that there is no significant relationship between firm performance and the institutional owners who have more than 5% of the total equity in Kuwaiti listed non-financial firms.

Some studies have investigated the relationship between internal governance mechanisms and the quality of voluntary disclosure. Al-Janadi, Rahman, and Omar (2013) studied the relationship between board composition and voluntary reporting in Saudi Arabia and concluded that this internal mechanism as a monitoring power, significantly affects the quality of voluntary disclosure. In other words, the board size, and proportion of non-executive directors are the factors that positively influence the quality of voluntary disclosure by the firms, while the impact of CEO duality on disclosure quality is negative (Al-Janadi et al., 2013). Al-Shammari and Al-Sultan (2010) indicated that CEO duality and non-executive boards have no significant effect on voluntary disclosure as a measure of market transparency in Kuwaiti listed companies.

Al-Janadi et al. (2013) concluded that state and family ownership are negatively related to voluntary reporting in Saudi Arabian firms. Al-Shammari and Al-Sultan (2010) stated that there is no significant

relationship between family ownership and voluntary disclosure in Kuwaiti listed companies. The findings of Juhmani (2013) showed that although block-holder ownership negatively affects voluntary disclosure, there is no significant relationship between this variable and governmental and managerial ownerships.

4.2.2. External mechanisms

Like other developing countries, external corporate mechanisms in the GCC region concentrate on investors' and shareholders' rights protection, and legal system issues. Nevertheless, according to Farooq and Derrabi (2012), Othman and Zeghal (2010), the English common law countries (Bahrain, Saudi Arabia, and the United Arab Emirates) have stronger governance mechanisms rather those that follow the French civil law (Kuwait and Qatar) in terms of lower debt agency costs, higher investor protection, stricter law enforcement, stronger property rights, and higher information disclosure and transparency (Othman & Zeghal, 2010). Al-Wasmi (2011) argued that inefficient legal structures, as well as political interventions, have caused Kuwait state-owned firms to overstaff under the influence of nepotism and favoritism and reject some international projects for unknown reasons.

The legal system is not efficient in the GCC countries and there is low protection for the investors and shareholders' rights in these countries. Low shareholders' protection is one of the corporate governance characteristics in the GCC region (Al-Malkawi et al., 2014). The poor legal system (Al-Saidi & Al-Shammari, 2014) and low shareholders' rights protection are two governance features in Kuwait (Al-Saidi & Al-Shammari, 2014; Al-Wasmi, 2011).

4.3. Corporate governance in Russia³

Russia is a large, dynamic, and complex country with non-harmonized economic development in different regions (Judge, Naoumova, & Koutzevol, 2003). Moreover, there is a large difference between the Russian firms with respect to corporate governance quality and practices (Black, 2001b). Corporate governance quality in Russian oil and gas sector has improved during the past two decades in response to the necessity of joining the international capital markets (Heinrich, 2005).

4.3.1. Internal mechanisms

Lack of transparency and disclosure are two important problems resulting from weak internal mechanisms in Russia. Other internal mechanisms mainly discussed in the literature regarding Russian companies include: 1) board composition and its components, i.e., board size and board structure such as board independence and CEO duality; 2) ownership structure in the form of managerial (insider), concentrated (institutional and large), and governmental ownership.

³ Russia has become an OPEC plus member since 2016. In 2019, Russia exported oil and gas about \$121,444 billion that is, 5.9% lower than the earned income in 2018. This income represents 12.1% of the global crude oil exports and 7.14% of its GDP in 2019. In the same year, this country ranked 11th in the world in terms of GDP (\$1,700 trillion).

Internal governance mechanisms are not efficient in Russia. As a result, lack of transparency and disclosure are the main factors that have increased the risk of investment in this country (Goldberg & Desai, 1999; Puffer & McCarthy, 2003). The findings of Black (2001a) showed unlike the developed countries, where governance behaviour does not have much effect on market value, in Russia, firm value is strongly correlated with the quality of firm-level governance behaviour, and this relationship is positive.

Regarding the quality of the board of directors, CEO duality is not an efficient mechanism in Russian firms and evidence shows that CEO duality negatively affects firm performance in Russia. However, the influence of board composition (board independence) on firm performance is not consistent. Judge et al. (2003) studied the relationship between board composition (board independence) and firm performance in Russia and indicated that the proportion of insiders on board is negatively related to firm performance only when the firm follows a retrenchment strategy. This implies that first, the interests of insider directors converge to those of the owners except when there is a risk of personal loss. Second, board composition does not have a significant effect on firm performance when Russian firms are in stable or growing situations. Furthermore, given the fact that CEO duality is illegal in Russia since 1996, they concluded that informal CEO duality negatively affects firm performance. They also demonstrated that retrenchment strategy in the form of reducing unproductive costs and assets increases the overall performance of Russian firms. Finally, they suggested that Russian firms require effective corporate governance in order to increase their performance (Judge et al., 2003). Orazalin, Makarov, and Ospanova (2015) documented that board size and board independence have no effect on the performance of oil and gas companies. Iwasaki (2008) discussed that although Russian firms are actively assigning outsider directors on their boards to monitor the CEOs, their board composition is influenced by the legal system.

Despite the contradictory results regarding the impact of ownership structure on firm performance, evidence supports this hypothesis that the governmental and concentrated ownerships are not effective in Russia and cannot mitigate the conflict of interest between the agent and the principal.

Regarding the ownership structure in Russian companies, the effects of concentrated (institutional and large), and state ownership on firm performance are mixed. However, managerial (insider) ownership performs efficiently and positively affects firm value. Ownership concentration in Russian firms resulting from the underdeveloped capital markets increases the conflict of interests among different large owners and between large and small shareholders but not between the directors and shareholders in private companies (Enikolopov & Stepanov, 2013; Lazareva, Rachinsky, & Stepanov, 2008). Moreover, it frustrates the independence of board members (Lazareva et al., 2008). Similarly, Kuznetsov, Kapelyushnikov, and Dyomina (2008) and Filatotchev, Kapelyushnikov, Dyomina, and Aukutsionek (2001) concluded that high concentrated

(large and institutional) ownership is negatively associated with firms' investment level and profitability. This is because in a weak institutional environment with low transparency and insufficient protection of investors and minority shareholders' rights, ownership concentration increases the agency problem between the controlling and minority shareholders (Filatotchev et al., 2001; Kuznetsov et al., 2008). On the contrary, Kalezić (2015) found that concentrated ownership enables shareholders to protect their rights and interests through effective monitoring mechanisms and thus, contributes to higher firm performance. Likewise, Orazalin et al. (2015) showed that managerial ownership increases a firm's earnings proxied by return on assets and return on equity.

The high percentage of state ownership is another specification of Russia's corporate governance that increases the agency problem between directors and minority shareholders for these reasons: first, state owners do not pursue the aim of maximizing the wealth of shareholders; second, managers in state-owned institutions are not concerned about making risky decisions in competitive markets that may result in bankruptcy. Finally, in such structures, the government appoints the final decision-makers whose main concerns are their political and social connections as well as accountability to the public (Enikolopov & Stepanov, 2013). In the same vein, some other findings have shown that private companies outperform state-owned firms in Russia (Brown & Earle, 2000; Iwasaki, 2008; Schweiger & Friebel, 2013). Liljebloom, Maury, and Hörhammer (2019) investigated the effects of different types and levels of governmental ownership on firm performance and efficiency in Russia. They documented that in general, state ownership negatively affects firm performance measured by return on assets, return on equity, and return on sales. Direct state ownership also decreases firm market value proxied by Tobin's Q, and firm efficiency captured by sales per employee measure. This effect is greater when the state owners are minority owners in the firms. Further, the negative impact of regional state ownership on firm performance is higher than that of federal ownership (Liljebloom et al., 2019). By contrast, Orazalin et al. (2015) argued that government ownership positively affects firm performance in Russia. Likewise, Liljebloom et al. (2019) found that the relationship between government ownership and profitability is positive in the Russian oil, gas, steel, minerals, energy, and mining sectors since these industries are non-competitive (Liljebloom et al., 2019). Although the Russian government tries to take control of large companies and hinders foreign investment in oil and gas projects (Lazareva et al., 2008), Orazalin et al. (2015) documented that foreign owners positively affect firm performance since they contribute to liquidity, management quality, and firm growth.

4.3.2. External mechanisms

As per the literature, external governance mechanisms are concentrated on the law system, law enforcement, protection of investors and shareholders' rights, and adherence to the rule of law.

The law system and law enforcement procedures are not efficient in Russia. As a result, there is low protection for investors and shareholders in this country. According to Enikolopov and Stepanov (2013), although the increasing needs of companies for financing their projects together with the existing global competitive environment has increased the quality of corporate governance in Russia during recent years, high corruption levels and weak law enforcement are still two main hindrances that are not removed easily unless considerable changes occur in legal, social, and political structures. Black (2001a) stated that corporate governance behaviour in Russia is weak culturally and legally. The quality of corporate governance in Russia is low in comparison with developed countries mainly because of weak legal infrastructures with respect to law enforcement and protection of property and shareholders' rights. This factor together with the split labour market and the underdeveloped capital markets give rise to high levels of concentrated ownership of insiders and high private benefits of control (Enikolopov & Stepanov, 2013; Lazareva et al., 2008). Nevertheless, Kuznetsov et al. (2008) argued that even large shareholders and concentrated owners are not protected effectively because of the existing weak law system in Russia.

Adherence to the rule of law is weak in Russia and the governance behaviour of insiders including managers and large shareholders is not disciplined by strong norms and conduct. Even in cases where corporate and securities regulations have been clearly defined, these laws are ignored widely. A set of these factors has allowed unqualified insiders to take control of some companies during the process of privatization or thereafter (Black, 2001a).

4.4. Corporate governance in Venezuela⁴

4.4.1. Internal mechanisms

Venezuela has been an OPEC member since its establishment in 1960. The few studies that have investigated corporate governance practices in Venezuela have concentrated on board efficiency and the effect of poor governance practices on transparency and accountability. They have also discussed the ownership concentration in the form of governmental and concentrated family ownership.

Corporate governance performs poorly in Venezuelan firms and this has resulted in low levels of transparency and accountability (Aguilera, 2009). The board of directors does not perform well in Venezuelan firms to fulfill its monitoring role. Garcia, González, and Ortega (2006) discussed that, unlike the director turnover, CEO turnover negatively affects firms' financial performance, implying that the role of the directors is more advisory than monitoring in Venezuelan firms (Garay & González, 2005).

Moreover, ownership structure in the form of state and concentrated family ownership does not function efficiently (Aguilera, 2009). Many Venezuelan companies have concentrated ownership

and are controlled by financial and industrial conglomerates, giving rise to the agency problem between the minority and controlling shareholders (Lefort, 2005).

4.4.2. External mechanisms

The literature is mostly concerned with the law and enforcement systems as well as the investors' rights protection as the main external governance mechanisms in Venezuela. In addition, uncertain economy, unstable political situation (Lefort, 2005), underdeveloped financial markets (Garay & González, 2005) with limited sources for small and medium-sized companies to finance their projects, as well as illiquid stock market (Aguilera, 2009) are the factors that affect the corporate governance quality in Venezuela.

External governance mechanisms do not function well in Venezuela. Legal and law enforcement systems are not efficient in Venezuela and therefore are not able to protect the rights of the investors and minority shareholders (Aguilera, 2009; Fernandez, DelPino, Lau Dan, & Diaz-Granados, 2001; Garay & González, 2005; Lefort, 2005). Garay and González (2008) argued that in a country like Venezuela where the legal infrastructures regarding property rights and investor protection are weak, corporate governance practices with more concentration on protective measures to shareholders play a more important role (Garay & González, 2008).

4.5. Corporate governance in Nigeria⁵

4.5.1. Internal mechanisms

Internal governance issues in Nigeria are mainly associated with 1) board structure (board independence, unitary board, and lack of CEO duality), 2) ownership structure including concentrated (institutional and large) and governmental ownership, and 3) the effect of internal governance mechanisms on transparency and disclosure quality.

Corporate governance quality is weak in Nigeria and this gives rise to low-quality levels of disclosure and transparency in Nigerian companies (Okpara, 2011; Quadri, 2010). Furthermore, although the Nigerian government has encouraged commercialization and privatization plans after the weak governance quality in public and state-owned firms, the private sector does not show better corporate governance practices as well (Uadiale, 2012).

The board of directors does not function efficiently in Nigerian firms due to inefficient board commitment (Okpara, 2011), inefficient monitoring (Okpara, 2011), lack of CEO duality (Osemeke & Adegbite, 2016), and unitary board structure in which the board members play the role of executives and controllers at the same time (Afolabi, 2015). By contrast, board independence increases corporate governance quality. Uadiale (2012) documented that a higher proportion of independent directors with

⁴ Venezuela's income from crude oil exports reached about \$13,813 billion in 2019 with a sharp decrease of 47.8% in comparison with 2018. Nevertheless, this amount stands for about 1.38% of the world's export and constitutes 19.69% of its GDP. In addition, it ranked 68th in terms of GDP in 2019 with an amount of \$70,140 billion. \$70,140 billion that shows a negative growth of 19.6% in comparison with 2018.

⁵ Nigeria joined OPEC in 1971. Experiencing a negative growth of 5.8% in comparison with year 2018, Nigeria's income from crude oil sales reached about \$41,045 billion in 2019, constituting 4.1% of the world exports, and 9.2% of its GDP. In the same year, the country's GDP ranked 26th in the world with an amount of \$448,120 billion.

corporate experience as well as the existence of audit committee members with financial knowledge negatively affect earnings management in Nigeria (Uadiale, 2012). Earnings or disclosure management is the manipulation of external processes in financial reporting with the purpose of obtaining private interest (Schipper, 1989). As a result, the reported earnings may be higher than what should be according to the accounting standards (Dechow, Sloan, & Sweeney, 1995).

Ownership structure in the form of concentrated (institutional) ownership (Afolabi, 2015) is an efficient internal mechanism in Nigerian companies. Uwuigbe and Olusanmi (2012) pointed out that the relationship between institutional ownership and firm performance measured by return on assets is significantly positive in Nigerian listed companies.

4.5.2. External mechanisms

Nigeria has the same problems as those of Russia and Venezuela regarding the external governance quality. As the literature, the main external mechanisms in Nigeria include law and enforcement infrastructures as well as minority shareholders' rights protection.

External governance mechanisms do not function well in Nigeria because of inefficient law and enforcement systems, and low protection for minority shareholders' rights. Nigerian corporate governance is featured by low minority shareholders' rights (Uadiale, 2012), and weak law enforcement (Afolabi, 2015; Okpara, 2011; Quadri, 2010). Uadiale (2012) discussed that the main governance problem in Nigeria refers to the existing gap between law and enforcement (Uadiale, 2012). In addition, Nigeria's underdeveloped economy is a key factor that negatively affects governance efficiency (Quadri, 2010). Some other factors that negatively influence corporate governance quality in this country include unstable political situation, religious and ethnic unrests, weak leadership (Adegbite & Nakajima, 2011), poor economic system, socio-political corruption, and widespread bribery (Afolabi, 2015; Ahunwan, 2002) in all parts of the economy (Adegbite & Nakajima, 2011). Consequently, the reforms of the legal system and capital markets will not be effective unless a set of political and socio-economic problems, such as poverty, religious conflicts, and tribal tensions are taken into consideration (Ahunwan, 2002).

5. CONCLUSION

In this paper, we briefly reviewed the agency and corporate governance mechanisms which are explained in two firms and country levels. Moreover, the quality of governance practices in oil and gas exporting developing countries was explored in the context of the discussed mechanisms.

The review of the existing literature on corporate governance in oil and gas exporting developing countries shows that although these countries have tried to improve the quality of their governance practices in response to the competitive environment and recent innovations in the financial markets as well as the requirements of international regulators, they are still in the initial steps of

improvement process in comparison to developed countries. They have issued their governance codes in the 2000s while in some developed countries like the UK this dates back to 1992.

The findings of the reviewed papers demonstrate that these countries share similar corporate governance characteristics, notwithstanding their cultural, geographical, and religious differences regarding the internal governance mechanisms. These common features include weak legal systems with respect to law enforcement institutions and the protection of the rights of investors and shareholders, state and family concentrated ownership, underdeveloped financial markets, illiquid stock markets, and low levels of transparency, disclosure, and accountability.

The findings of this review paper indicate that corporate governance mechanisms do not function efficiently in the studied countries at both internal and external levels. Regarding the internal factors, poor governance quality has resulted in low transparency levels and weak voluntary disclosure quality. However, the literature finds a partial efficiency regarding the effects of internal governance variables on firm performance. In other words, board gender diversity and managerial (insider) ownership variables function well in the MENA and GCC regions in terms of their impact on board performance. Managerial ownership also affects positively the firm performance in Russian companies. The effects of other internal mechanisms, i.e., the board of directors (CEO duality, board independence, and board size), and ownership structure (governmental, family, and concentrated or institutional ownership) on firm performance are mixed and contradictory in the MENA and GCC countries as well as Russia. However, CEO duality is not an efficient mechanism in Russia and the GCC region while board size and concentrated (institutional and large) ownership positively affect firm performance in the MENA companies. Moreover, board independence and governmental ownership do not work effectively in the MENA region. In contrast to Russia, the MENA, and GCC countries, only a few studies have investigated the performance of internal governance mechanisms in Venezuelan and Nigerian firms and the results are not robust. According to these results, board independence works efficiently in Nigerian companies as it positively influences firm performance through increasing disclosure quality. Moreover, concentrated family and governmental ownerships are not an efficient mechanism in Venezuelan companies because they increase the agency problem between the controlling and the minority shareholders, and negatively affects firm performance.

Regarding the external mechanisms inefficiency, all the studied countries share common characteristics with respect to weak legal systems, inefficient law enforcement infrastructures, and low levels of protection for properties, investors, and shareholders especially the minority ones. In addition, in some of these countries, corporate governance quality is influenced by an uncertain economy, unstable political system, tribal and ethnic unrests, religious conflicts, poverty, socio-political corruption, and underdeveloped capital markets. Moreover, some countries like Russia have restricted foreign investment in oil and gas projects.

The quality of external mechanisms is important because even in situations where the internal mechanisms function well, weak external governance mechanisms naturalize their positive effects. In short, the most important factor that distinguishes developing countries from developed ones in terms of the quality of corporate governance is the higher level of transparency in developed countries.

Finally, in order to increase the quality of corporate governance practices, oil and gas exporting developing countries should concentrate on making legal, social, and political reforms, and some others should increase board independence, law enforcement regulations, and transparency level through disclosure of information.

The existing limitation regarding the lack of sufficient information about corporate governance in some oil and gas exporting developing countries such as Algeria, Libya, and Iraq did not allow for

a complete comparison of the internal and external corporate governance mechanisms in all included countries. The studies related to Nigeria and Venezuela are limited as well. This limitation can form the cornerstone of future research. In addition, according to the results of this research, the effect of external mechanisms is stronger than that of internal ones. In other words, in some cases where the studied countries have tried to improve the quality of their corporate governance practices under the influence of regulatory requirements and competitive financial markets at the international levels, these attempts have been neutralized by the negative effects of the external mechanisms. Therefore, future studies can concentrate on the reasons for the importance of external mechanisms and investigate the relationship between such mechanisms and the political structure and stability of the countries.

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