

The Impact of Corporate Governance on Firm Performance: Evidence From Bahrain Bourse

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[Abstract] Corporate governance is recognized as one of the most important implications in building marketplace confidence and attracting positive investors in the organization specifically and the economy generally. Promoting good corporate governance standards is considered to be very important in attracting investment capital, reducing risk and developing a firm's performance. The aim of this research was to examine the impact of corporate governance policies on firm performance in Bahrain Bourse. Previous literature reviews presented in the study found that corporate governance is successful in improving firm's performance. The study sample contained 42 out of 48 of Bahrain's companies which were listed in Bahrain Bourse during the period from 2007-2011. The descriptive results indicate that our sample firms fulfill corporate governance variables about 61.2% for the entire study period. The empirical results indicate that performance measures such as return on assets (ROA) and return on equity (ROE) are significantly related to corporate governance in Bahrain. However, earnings per share (EPS), as a performance measure, did not show any significant change as a result of corporate governance. Overall, this study found a positive influence of corporate governance mechanisms on performance for the entire list of firms in Bahrain Bourse.

[Keywords] Corporate governance, firm performance, Bahrain bourse (BB), return on investment (ROI), return on assets (ROA), earnings per share (EPS)

Introduction

Many researchers have carried out studies to identify corporate governance, focus on its characteristics, and determine how these characteristics impact the performance of the entire firm. Studies found many answers related to research queries by providing a clear definition of good corporate governance. Studies also examined the ethics and procedures used to manage and monitor the performance of a business. The goal of most of these studies was to examine the relation between corporate governance mechanisms and performance measures.

After the collapse of Enron and the corporate scandals that have been ongoing since October 2001, the confidence of marketplace shareholders began to shake. In response to this erosion, many investors, boards of directors and government regulators have encouraged businesses to emphasize corporate governance from different sides. These different sides include accounting and finance, economics, law, and management.

In addition to these divergent factors, countries and economies differ regarding what governance mechanisms they should use to attain the best results. For instance, the majority of Taiwan businesses are owned by families; however, in Anglo-American economies, the equity market is the most popular means of ownership. Still, when considering the best way to structure a firm, whether the firm is in Asia, Europe or USA, it is of the utmost importance to implement the correct governance mechanisms. This will aid any business in the process of decision making.

Given the factors that go into structuring a business, and the cultural differences that can exist between economies, countries, business founders and investors, it is extremely difficult to define corporate governance. A review of the literature shows that there is no universal definition. For the purposes of this paper, we will define corporate governance as "the system by which companies are directed and controlled" (Cadbury Committee, 1992). This is the most broadly used definition in business

literature. There are few studies which examine the effect of corporate governance on performance measures in the Global Council Cooperation (GCC) business environment. This paper may be the first to do so in Bahrain. Bahrain is one of the fastest growing global economies. Its government is keen to support good corporate governance mechanisms in hopes of increasing investor confidence and encouraging market improvement.

This study provides empirical evidence from Bahrain about the impact of corporate governance on a typical company's performance measures. Bahrain is one of most unique and attractive marketplace in the region, mainly because it provides great opportunities for more investment flows. This paper is a contribution to previous studies that investigate the effect of corporate governance practices among performance measures for the entire firm. The paper will also aid stakeholders in proposing the proper organizational structure of a firm. The paper will help to differentiate between firms with effective and ineffective corporate governance policies. Effective corporate governance has the goals of building marketplace confidence and attracting positive investors in the organization. The main objectives in this study are to

- Determine a means of distinguishing between effective and ineffective corporate governance,
- Demonstrate the effect of corporate governance practices on a firm's financial sector performance,
- Increase the awareness on agency theory and its relative costs,
- Illustrate the Bahraini market generally and the Bahrain Bourse specifically.

Literature Review

Many studies from around the world have investigated the impact of corporate governance variables on firm performance. Certain studies from other countries are useful to review in understanding and informing the current study. Sayla Siddiqui (2014) investigated the effect of corporate governance characteristics on firm performance based on 25 previous research studies. Siddiqui's study focuses on three particular concerns: the effects legal organisms, governance structures, and accounting or market performance measures on firm performance. Findings indicate the value of the markers of business performance measured by Tobin's Q. Tstudy concluded found that market to book ratio is the fundamental value of this relationship.

Pooja Gupta and Aarti Mehta Sharma (2014) conducted a study to determine the impact of corporate governance variables on firm performance in Indian and South Korean companies. Results illustrate that corporate governance has limited effect on both the company's share prices as well as on their financial performance. S. Danoshana and T. Ravivathani (2014) performed another study to explore the effect of corporate governance on business performance of 20 listed financial institutions in Sri Lanka. The study covered the period from 2008 to 2012.

ROE and ROA were used in the study as they are the key variables to define business performance. Analysis findings show that corporate governance variables significantly affect business performance. The sizes of the board of directors and audit committee can have positive effects the business's performance. Nevertheless, meeting frequency is negatively associated with business's performance. Dale Griffin, Omrane Guedhami, Chuck C.Y. Kwok, Kai Li and Liang Shao (2014) carried out a research study to examine the relation among national culture, corporate governance practices, and firm performance. By using a new database from Governance Metrics International which measured corporate governance practices across a large number of countries for the sample period of 2006-2011, they found that financial system of a country has a negative impact with transparent disclosure and minority shareholder protection according to the stock market-based.

Onakoya, Adegbelemi Babatunde O, Fasanya, Ismail O, Ofoegbu and Donald Ikenna (2014) conducted a study to explore the effect of corporate governance characteristics on bank performance in Nigeria. The final sample consists of 9 banks for the sample period of 2006-2010. It found that both board size and ownership structure have a positive impact on ROE. Nevertheless, the study found that corporate governance practices are negatively associated with companies' assets. In addition, results show that

board structure has no effect when considered as a profitability measures predictor.

Hamdan and Al-Sartawi (2014) collected more evidence from GCC countries by examining the relation between corporate governance and institutional ownership in the Kuwait Stock Exchange (KSE). Their empirical results indicate that the fraction of a company's shares, held by institutional investors, decreases with the quality of its governance structure. In another study, Hamdan (2014) investigates the relation between corporate governance and dividend policy in (KSE). This study displayed empirical evidence that there is a positive relation between corporate governance and dividend policy. It supported the hypothesis that increasing dividend policy is related to the quality of corporate governance; external financing constraints do not affect that relation. The study of Al-Shammari and Al-Saidi (2015) suggests that corporate governance and company-specific characteristics influence a company's timeliness of corporate internet reporting behavior. This is presumably in response to the information asymmetry between management and investors, and the resulting agency costs. The study of Khamis et al. (2015) found the institutional ownership having positive effect on performance using Tobin's Q indicator.

Krafft et al. (2013) investigated the relationship of corporate governance to the value and performance of a firm. The analysis concentrates on mergers, investigating the ways in which non US corporations are adopting the propositions of U.S. best practices. Based on the empirical analysis of the study, it concluded that many corporations are significantly adopting U.S. corporations' best practices associated with corporate governance. Guo and Kumara (2012) carried out research to test the effect of corporate governance measures on firm performance in Sri Lanka. The study sample consists of listed firms from the Colombo stock exchange. They found that size of board of directors is negatively associated with the value of the firm and effect of proportion of outside directors on operating performance of a firm.

Fatimoh Mohammed (2012) conducted a study to explore the impact of corporate governance mechanisms on bank performance on 9 Nigerian banks. He used a sample period of ten years (2001-2010). The analysis found that corporate governance has a significant positive impact on bank performance. It also indicates that poor asset quality and loan deposit ratios have a negative impact on business performance. Sami et al. (2011) conducted a study to demonstrate the link between operating performance and corporate governance of Chinese listed companies. Findings show that firm performance is positively associated with different measures of governance. Masood Fooladi (2011) investigated the effect of corporate governance on performance measures on a sample of 30 Malaysian firms. Fooladi collected samples from the 2007 fiscal year annual reports of those firms. Findings indicate that CEO duality is negatively associated with performance measures, specifically ROE and ROA. This appears to be because CEO duality reduces the board of directors' efficiency. Finally, the relationship among the independence of board of directors, size of the board, ownership structure is found to be insignificant to firm performance

Ehikioya (2009) found there is insignificant influence between CEO duality and firm performance, but a positive influence of ownership structure and performance. The study was inconclusive about the relationship between board composition and firm performance. However, Ehikioya did conclude that when the board consists of more than one member of a family, performance will be affected negatively. Lam & Lee (2008) suggested that the agency and stewardship theories were the only corporate governance theories to give clear explanation about duality and performance. The empirical analysis of the study found significant impact of duality on firm performance for non-family companies and vice versa.

Research Methodology

This part will include three sections:

- Study sample and data resources;
- Study models;
- Methods of measurement, including variables and statistical tools.

Study Sample and Data Resources

Several sources have been used in this study for data analysis. The information needed about firm's performance and corporate governance characteristics is collected from the (BB) database which contains 48 listed companies. Companies were selected according to the following criteria:

- Data is available in the period of 5 years (2007 to 2011).
- Companies have not been closed or merged with any other company during the study period. Two companies closed during the study period and four non- Bahraini companies were excluded from the sample. Therefore, the final sample consists of 42 companies, representing 87.5% of the original sample. The Sample Selection procedure is displayed in table 1.

Table 1
Sample Selection

#	Sector	Listed Companies	Excluded Companies	Study Sample
1	Commercial Banks	8	0	8
2	Investment Sector	12	0	12
3	Insurance Sector	5	0	5
4	Service Sector	9	0	9
5	Industrial Sector	3	0	3
6	Hotel- Tourism	5	0	5
7	Closed Companies	2	2	0
8	Non Bahraini Companies	4	4	0
Total		48	6	42

Research Hypothesis

Evidence from previous empirical studies review has been used to confirm the impact of corporate governance practices on firm performance. A literature review from relevant academic studies has pointed out the specific characteristics of firms where corporate governance is applied. Brown and Caylor (2004) conducted a study on a total of 2,327 US data firms with a database collected from the Institutional Shareholder Service (ISS), examining 51 factors aligned with 8 categories. Results found that good governed firms are more profitable and more valuable compared to other firms. Black (2001) claims that corporate governance mechanisms have more of an impact in developed countries. One possible explanation is that non-developed or developing countries tend to have weak regulations in comparison to firms in developed countries with strong corporate governance mechanisms.

Many previous studies have provided evidence linking strong corporate governance with increased performance for a firm. This means that corporate governance improves company performance (Hossain, Cahan and Adams, 2000). While other researchers have demonstrated negative impact of corporate governance on firm performance (Hutchinson, 2002), still others have found insignificant relationships between strong corporate governance and firm performance (Young, 2003).

Thus, the main hypotheses may be formed as follows:

H₀₂: There is no significant impact of corporate governance on performance in Bahrain Bourse.

H_{a2}: There is significant impact of corporate governance on performance in Bahrain Bourse.

The second hypothesis may be divided into three sub hypotheses according to the performance dimension that will be studied.

Financial Performance: Effective corporate governance practices are successful to gain profits, whereas the organization with week governance practices get less financial benefits. Organizations having poor governance structures delivered less value to investors, while firms with efficient governance procedures gave much higher ROI values (Nandelstadh and Rosenberg, 2003).

Operational Performance: Sami et al. (2011) investigated the association between operating performance and corporate governance of Chinese listed companies. Findings show a favorable relation among different measures of governed firms and performance.

Stock Performance: Gompers et al. (2003) pointed out that during the 1990s, stock returns of organizations that provided efficient protection of investor rights outperformed the corporations with less protection of investor’s rights by approximately 8.5% per year.

Study Models

This research attempts to find the impact of corporate governance on firm performance. Governance indices have been constructed for Europe and the United Kingdom, Germany, Russia, Korea, the United States, and several emerging markets. They are used to illustrate the relation between corporate governance and performance (Black et al., 2006). Mostly, these research results are positive. A research framework for the current study is presented in figure 1 on the next page.

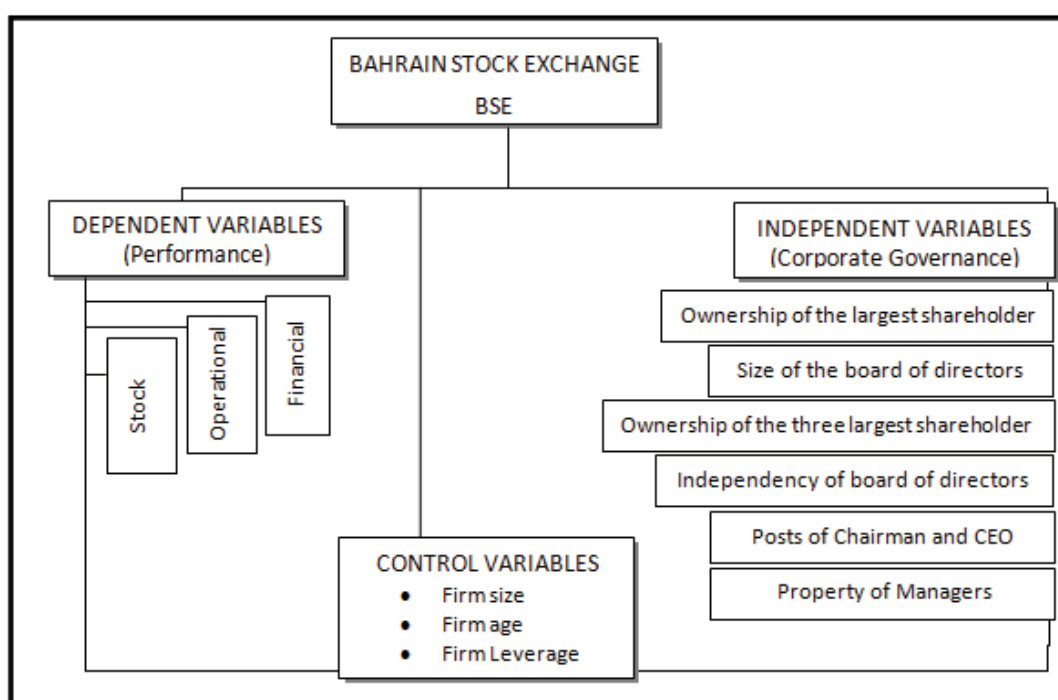


Figure 1. Theoretical Framework model

To determine the relation between corporate governance and performance after controlling the factors, we estimate the following regression model:

$$\begin{aligned}
 Perf_{i,t} = & \beta_0 + \beta_1 OLS_{i,t} + \beta_2 SBoard_{i,t} + \beta_3 OThLS_{i,t} + \beta_4 IndepB_{i,t} \\
 & + \beta_5 ChCSEQ_{i,t} + \beta_6 PManager_{i,t} + \beta_7 Size_{i,t} + \beta_8 Leverage_{i,t} \\
 & + \beta_9 Age_{i,t} + \sum_{k=1}^{n6} \beta_k Sector_{i,k} + \epsilon_{i,t}
 \end{aligned}$$

Where:

Perf_{i,t} is a continuous variable; the dependent variable is the performance for the company (i) in the year of (t).

β₀ is the constant.

β_{1..15} is the slope of the independent and controls variables.

OLSh_{i,t} is a dummy variable, coded 0 if a shareholder owned more than 20% and 1 if a shareholder owned

less than 20%, for the company (i) in the year of (t).

SBoard_{i,t} is a dummy variable, coded 0 if the board of directors' members is not between 7-13 members and 1 if the board members are between 7 and 13, for the company (i) in the year of (t).

OThLSh_{i,t} is a dummy variable, coded 0 if the ownership of the three largest shareholders more than 50% and 1 if the three largest shareholders one less than 50%, for the company (i) in the year of (t).

IndepB_{i,t} is a dummy variable, coded 0 if the board of directors is not controlled by more than 50% independent outside directors and 1 if the company is controlled by more than 50% outside directors,, for the company (i) in the year of (t).

ChCSEO_{i,t} is dummy variable, coded 0 if the chairperson is also the CEO and 1 if someone besides the CEO acts as chairperson, for the company (i) in the year of (t).

PManager_{i,t} is a dummy variable, coded 0 if the managers in the company own more than 20% of the company's shares and 1 if the managers own less than 20% of the shares, for the company (i) in the year of (t).

CSize_{i,t} is a continuous variable,; it indicates the company size, for the company (i) in the year of (t).

Leverage_{i,t} is a continuous variable representing financial leverage. Financial leverage is the ratio of total debt to the book value of total assets for the company (i) in the year of (t).

Age_{i,t} is a continuous variable, indicating the company age, for the company (i) in the year of (t).

Sector_{i,k} is a continuous variable, indicating the type sector to which the company (i) belongs and it is divided into 7 sectors. ε_i : random error.

Measuring of Variables

Variables used in this empirical study include: (1) dependent variable (firm's performance); (2) independent variables (corporate governance); plus (3) control variables. Concepts and measurements of these variables are summarized in Table 2 below.

Table 2

The Labels and Measurement of the Variable

Variable	Label	Definition and Measurement
Dependent variables:		
Financial performance	ROE	Is the ratio of net profit attributed to shareholders/equity.
Operational performance	ROA	Is the ratio of net income to the book value of total assets.
Stock performance	EPS	Is the ratio of net profit after taxes and preference dividends by the number of outstanding equity shares.
Independent variables:		
Corporate governance characteristics:		
Ownership of the largest shareholder	OLSh	Dummy variable coded 0 If a shareholder owned more than 20% and 1 otherwise.
Size of the board of directors	SBoard	Dummy variable coded 0 if the boards of directors members are not between 7-13 members and 1 otherwise.
Ownership of the three largest shareholders	OThLSh	Dummy variable coded 0 if the ownership of the three largest shareholders more than 50% and 1 otherwise.
Independency of board of directors	IndepB	Dummy variable coded 0 if the board of directors is not controlled by more than 50% independent outside directors and 1 otherwise.
Posts of chairman and CEO	ChCSEO	Dummy variable coded 0 if the chairperson is also the CEO and 1 otherwise.
Property of managers.	PManager	Dummy variable coded 0 if the property of managers in the company's shares not between 1-20% and 1 otherwise.
Control variables:		
Company size	CSize	Natural log of total assets.
Financial leverage	Leverage	The ratio of total debt to total assets.
Firm Age	FirmAge	Is the number of years since the founding of the company.

Dependent Variable

In this study, three dependent variables were examined: return on equity (ROE), return on assets (ROA) and earnings per share (EPS). Various empirical studies use financial measures to test the relation between corporate governance and firm performance. Those measures fit into accounting measures as well as market measures (Kiel & Nicholson 2003). Accounting measures such ROA (Kiel & Nicholson 2003) and ROE (Baysinger & Butler 1985) are the most common variables used in prior corporate governance studies.

Financial Performance: ROE has been is one of the most significant and commonly used financial profitability ratios. Many researchers have employed ROE as a firm performance measure in their studies. ROE is an important indicator because it tells how the firm has used the resources of its owners. This ratio reflects the level to which the objective of shareholders wealth maximization has been achieved.

Operational Performance: ROA was selected in our study because of its relative use in previous studies work in determining how profitable a firm is. A study was conducted by Coleman (2008) to determine the effect of corporate governance on African firm performance. ROA was also employed in Coleman's study to explore how profitable a firm was.

Stock Performance: EPS is a profit attribute calculated by dividing the number of equity shareholders by the number of ordinary shares. Most commonly used to evaluate a firm's performance, EPS measures performance from an investors' point of view. Gompers et al. (2003) found that around 85-90 % of the related accounting data is measured in terms of net profit and EPS.

Finally, EPS demonstrate the total of available earnings for each ordinary shareholder; it can show the potential return on individual funds by comparing the EPS of different entities or even same entities in different periods, or both, for more accurate figures.

Independent Variable

The independent variables consist of six corporate governance variables: Ownership of the largest shareholder

- Size of the board of directors,
- Ownership of the three largest shareholders
- Independency of board of directors,
- Posts of chairman and CEO
- Property of managers.

Control Variable

Three control variables will be discussed for all estimated models in the current study. They are: firm Size (total assets), firm age, and financial leverage.

Firm Size. Many researchers have explained the link between firm size and firm performance in a number of ways. Firm size is one of the most important control variables in the current study. Firm Size is calculated by taking the natural log of total assets. In this model, ROA is the dependent variable; firm size will be calculated as natural log of net sales.

Firm Leverage. The debt level of a firm has the potential to impact financial performance due to costs of finance and risk of default. Firm leverage is the amount of debt created when shareholders borrow money for securities investment. Weill (2003) investigated "the relationship between leverage and corporate performance". Findings indicated that results were mixed. Italian firms were found to have negative relationships, but positive relationships were found in French and German firms.

Firm Age. Firm age is the total number of years a firm has been in operation. Sami et al. (2011) indicated that both financial growth and the capital structure of firms are impacted with age. At the starting point of any business, firms typically have more expenses. This is because they have less experience in the market. As a result, total cost structure of new firms is higher than that of old firms.

Data Analysis and Testing of Hypothesis

Descriptive Analysis

Based on the samples of 42 chosen firms, this study measures the effects of corporate governance by using the indicators of 1) Ownership of the largest shareholder (OLSh), 2) Size of the board of directors (SBoard), 3) Ownership of the three largest Shareholders (OThLSh), 4) Independency of board of directors (IndepB), 5) Posts of chairman and CEO (ChCSEO), and 6) Property of managers (PManager). Tables 3-7 contain data of descriptive statistics on governance characteristics for the study sample of firms over the period of 2007-2011.

Table 3

Descriptive Statistics of Governance (2007)

Corporate Governance Characteristics:	Label	Frequency of 1's		Frequency of 0's	
		Frequency	Percent	Frequency	Percent
Ownership of the largest shareholder.	OLSh	21	50	21	50
Size of the board of directors	SBoard	29	69	13	31
Ownership of the three largest shareholders	OThLSh	24	57.1	18	42.9
Independency of board of directors.	IndepB	12	28.6	30	71.4
Posts of chairman and CEO	ChCSEO	29	69	13	31
Property of managers	PManager	38	90.5	4	9.5
Mean (Corporate governance index)			60.7		39.3

Table 4

Descriptive Statistics of Governance (2008)

Corporate governance Characteristics:	Label	Frequency of 1's		Frequency of 0's	
		Frequency	Percent	Frequency	Percent
Ownership of the largest shareholder.	OLSh	20	47.6	22	52.4
Size of the board of directors	SBoard	30	71.4	12	28.6
Ownership of the three largest shareholders	OThLSh	23	54.8	19	45.2
Independency of board of directors	IndepB	11	26.2	31	73.8
Posts of chairman and CEO	ChCSEO	28	66.7	14	33.3
Property of managers	PManager	38	90.5	4	9.5
Mean (Corporate governance index)			59.53		40.47

Table 5

Descriptive Statistics of Governance (2009)

Corporate governance Characteristics:	Label	Frequency of 1's		Frequency of 0's	
		Frequency	Percent	Frequency	Percent
Ownership of the largest shareholder.	OLSh	19	45.2	23	54.8
Size of the board of directors.	SBoard	29	69	13	31
Ownership of the three largest shareholders.	OThLSh	25	59.5	17	40.5
Independency of board of directors.	IndepB	14	33.3	28	66.7
Posts of chairman and CEO.	ChCSEO	30	71.4	12	28.6
Property of managers.	PManager	38	90.5	4	9.5
Mean (Corporate governance index)			61.48		38.52

Table 6
Descriptive Statistics of Governance (2010)

Corporate Governance Characteristics:	Label	Frequency of 1's		Frequency of 0's	
		Frequency	Percent	Frequency	Percent
Ownership of the largest shareholder	OLSh	19	45.2	23	54.8
Size of the board of directors	SBoard	31	73.8	11	26.2
Ownership of the three largest shareholders	OThLSH	23	54.8	19	45.2
Independency of board of directors	IndepB	17	40.5	25	59.5
Posts of chairman and CEO	ChCSEO	28	66.7	14	33.3
Property of managers	PManager	39	92.9	3	7.1
Mean (Corporate governance index)			62.32		37.68

Table 7
Descriptive Statistics of Governance (2011)

Corporate governance Characteristics:	Label	Frequency of 1's		Frequency of 0's	
		Frequency	Percent	Frequency	Percent
Ownership of the largest shareholder	OLSh	21	50	21	50
Size of the board of directors	SBoard	30	71.4	12	28.6
Ownership of the three largest shareholders	OThLSH	23	54.8	19	45.2
Independency of board of directors	IndepB	13	31	29	69
Posts of chairman and CEO	ChCSEO	30	71.4	12	28.6
Property of managers	PManager	39	92.9	3	7.1
Mean (Corporate governance index)			61.91		38.08

The mean percent of corporate governance index for the entire period is more than 50% (around 61.2% on average), illustrating that the study sample meets more than half of the governance variables. From the entire data in 2007-2011, most of the sample chosen shows that shareholders owned more than 50% of a company's outstanding shares. This is because the majority of investors in the Bahrain market are also the owners of the firm. Controlling more than half the voting interests in the firm had significant impact on shareholders' influence in the business operations and strategic direction of the firm.

According to the corporate governance code in Bahrain "The board should have no more than 15 members, and should regularly review its size and composition to assure that it is small enough for efficient decision making". Based on the current data, the average board size within five years of operation is 12 members. This study's boards range result is considered an ideal size, since large number of members can cause a business to use its resources inefficiently (Bank of Bahrain, 2012).

The amount of equity held by the largest shareholders is one of the most important characteristics when investigating the impact of multiple large shareholders on the evaluation of the listed firms selected in a data sample. This study found that, on average, 43.8% of the firms listed in the data have multiple large shareholders. This is seen in family businesses when family members have managerial or board control. Family members are more focused on their own benefits, especially if there is no strong monitoring by other shareholders.

Board independence is also an important variable. The key element of an effective board is having majority membership of independent outsiders. An independent outsider is defined as an individual who has never worked at the company and has no relationship to any of the employees, customers, or service providers such as accountants, investment bankers, lawyers, etc. The current study found that the greater the number of outside members, the better. Current study data found that 68.08%, on average, of the firms during the years 2007-2011 had a board of directors that was not controlled by more than 50% independent outsider members. This means that more than half the firms in the data selected were not applying the board independence strategy.

It should be noted that, in practice, the "outsider" label is often given to a retired CEO or a family member. This causes conflicts of interest because the independent outsider is actually an insider and stakeholder in the company. In addition, fewer outside board members translates to a lower level of corporate governance for shareholders, leading to fewer independent board members. This is especially true if there is no separation between the chairman and CEO positions.

The study concludes it is better for a company to split the positions of CEO and chairman rather than combining them. This practice leads to more efficient corporate leadership structure, improved regulations and more fully developed financial reports. Based on our data over the year 2007 to 2011, an average of 69.04% of the firms had a separate chairman and CEO for the company. The corporate governance code in Bahrain stipulates that the chairman must be an independent director and cannot be the same person as the CEO in any circumstances. This provides for greater powers of independent decision making for the board.

Finally, one of the important corporate governance characteristics is property managers. A property manager can be defined as a person or firm charged with managing and operating a real estate property, for a fee, if the landlord is unable to conduct these operations in person. Our results indicate that over the years of 2007-2011, more than 90% of the firms hire property managers and property managers own between 1 and 20% of the company shares. Many landlords are unable to carry out daily tasks and collect rents because they live too far away or lack the extra time needed. However, many landlords in Bahrain prefer to handle these responsibilities themselves because not all property managers are honest or competent.

Table 8 presents the descriptive statistics of the corporate study variables covering the years 2007-2011. It shows number of observations, mean, standard deviation, maximum and minimum.

Table 8

Descriptive Statistics of Firm's Performance Measures with Control Variables

Variable	Year	Mean	Minimum	Maximum	Std. Deviation
ROE	2007	6.34	0.00	16.66	4.44
	2008	5.30	-13.01	19.79	5.97
	2009	3.80	-13.81	17.74	5.48
	2010	3.33	-39.69	16.36	8.23
	2011	4.13	-17.12	16.61	5.58
ROA	2007	8.08	00.38	24.34	6.10
	2008	4.15	-21.56	20.05	9.34
	2009	0.52	-45.40	17.73	14.28
	2010	3.49	-34.26	17.24	8.84
	2011	2.83	-22.32	16.24	6.49
EPS	2007	2.16	0.00	79.92	12.96
	2008	-10.80	-422.24	.31	67.62
	2009	0.60	-1.03	24.13	3.82
	2010	1.25	-00.29	48.26	7.72
AGE	2011	0.02	-0.07	.16	0.05
	2007	23.95	1	50	12.42
	2008	24.45	2	51	12.68

	2009	25.45	3	52	12.68
	2010	26.45	4	53	12.68
	2011	27.45	5	54	12.68
Total Assets BD,000	2007	950.49	4.87	12344.48	2391.80
	2008	943.26	5.25	10739.22	2206.58
	2009	942.94	4.51	9788.80	2120.49
	2010	1030.76	5.03	10595.58	2386.37
	2011	1037.60	4.79	10680.32	2410.61
Financial Leverage	2007	0.40	0.0010	0.93	0.30
	2008	0.44	0.0012	0.93	0.30
	2009	0.44	0.0382	0.90	0.29
	2010	0.43	0.0381	0.90	0.30
	2011	0.43	0.0436	0.91	0.29

The mean is the average figure of the variable for the data set. The standard deviation is an indication of how the data deviates around the mean. It is a measure of dispersion (variability). The higher the figure, the higher it deviates around the mean value. It is an indicator of the margin of errors for the data. Maximum value is the highest value and minimum value is the lowest value.

Firm performance as a dependent variable is measured with ROE, ROA and EPS. In review, ROE measures the rate of return on shareholders' equity. It is the efficiency measurement of shareholder equity in generating profit. ROA measures the profitability and effectiveness of firm assets in increasing profit and shareholder interests. EPS is another means of measuring probability. It is defined as the proportion of net profit after taxes and preferences after each dollar of outstanding shareholder equity is subtracted from gross profit

Control variables include firm age, firm size (total assets) and financial leverage. Firm age is the total number of years a firm has been in operation. Firm size is the natural logarithm of total sales. Leverage is debt to equity ratio. Refer to Table 8. As presented in Table 5.6, ROE averaged around 4.58 during the period 2007-2011 with a minimum value of -39.69 in 2010 to a maximum value of 19.79 in 2008. The average of return on equity reduced in 2008 to 5.2993 and fall again in 2009 and 2010 to 3.8032 and 3.3297 respectively.

Average asset profitability (ROA) of the firms listed in BB and reviewed in the analysis declined from 8.08% in 2007 to 0.52% in 2009 and started to rise again in 2010 to 3.5% and dropped again to 2.8% in 2011. Based on ROA, there is a wide deviation between firms since the ROA mean for sample firms fluctuates during the 5-year sample period. The findings show that the mean value for ROA indicates poor management performance in obtaining profit from firm assets. In addition, ROA shows a negative figure for the minimum value of ROA. This suggests that some of the businesses in the sample experienced financial loss during the financial year 2008, 2009, 2010 and 2011. August 2007 was the clear starting point for a big financial crisis where many well-known firms rose, fell, and suffered further losses.

The mean firm age was 23.95 in the year 2007. It increased to 27.45 by the end of 2011. In 2011, the oldest firm was 54 and the newest was 5. These findings indicate that listed firms have a long history of activity. The mean size indicator of total assets was 950497.57 in 2007. It increased until it reached 1037609.07 in 2011. Total assets were not affected by the financial crisis of 2007-08. This is because, as the global economic crisis took hold, banks in the Global Council Cooperation (GCC) countries were not affected directly through trade and financial channels. GCC governments, central and individual banks reduced the effect of the global economic crisis by decreasing the rate of return of GCC banks. This strategy increased profitability compared to western nations. The mean of the leverage is 42.62% in 2011, while the maximum and minimum are 9.1 and 4.3 respectively with standard deviation of 28.51. The mean value for EPS for the entire period was -1.35446 on average, with a minimum of -422.24 in 2008 and a maximum of 79.92 for 2011.

Empirical Analysis

Empirical analysis tests the impact of corporate governance variables on firm's performance. Ordinary

Least Squares (OLS) are the multiple regression models used to explore the relationship of corporate governance variables to firm performance in Bahrain. There are three categories of firm performance discussed in this paper. They are financial performance (measured by ROE) operational performance (measured ROA), and stock performance (measured by EPS). According to the performance dimension that the paper will study, three models of regression are used to determine the relationship between corporate governance and performance. The following formula is the study base model:

$$firm\ performance = \int_{i=1}^{42} corporate\ governanc$$

Where firm performance is measured by ROE, ROA and EPS. Corporate governance variables are

1. ownership of the largest shareholder (OLSh)
2. size of the board of directors (SBoard)
3. ownership of the three largest Shareholders (OThLSH)
4. independency of board of directors (IndepB)
5. posts of chairman and CEO (ChCSEO)
6. property of managers (PManager)

Control Variables are total assets (CSize), financial leverage (Leverage) and Firm age (FirmAge). Table 9 displays the multiple regression results for the three models presented in the study. The first column for each model shows the t-test; it identifies the level of significance which is shown in column two of each regression models. F statistics presents the overall significance of the model and p- value is the probability that can be used to determine whether the population means differ. The degree or percentage which the sample defines the dependent variables is the definition of R-square.

Table 9
Regression Results

Models		Model 1 ROE		Model 2 ROA		Model 3 EPS	
Variables	Label	t-test	Sig.	t-test	Sig.	t-test	Sig.
Independent Variables:							
Ownership of the largest shareholder	OLSh	-3.349	0.010	0.264	0.792	-0.713	0.477
Size of the board of directors	SBoard	2.547	0.039	3.511	0.002	-0.738	0.461
Ownership of the three largest shareholders	OThLSH	0.499	0.619	0.867	0.387	0.589	0.557
Independency of board of directors	IndepB	2.222	0.041	2.342	0.039	-1.900	0.059
Posts of chairman and CEO	ChCSEO	1.172	0.243	0.127	0.899	1.576	0.117
Property of managers	PManager	2.375	0.042	0.290	0.772	-0.491	0.624
Control Variables:							
Total Assets	CSize	4.641	0.001	4.443	0.002	0.451	0.652
Financial Leverage	Leverage	2.448	0.035	-5.068	0.000	-1.034	0.302
Firm Age	FirmAge	2.192	0.045	1.157	0.249	0.301	0.764
<i>F</i> -Statistic		11.779		4.103		0.825	
<i>Sig.</i> (<i>F</i>)		0.003		0.000		0.594	
<i>R</i> ²		0.053		0.160		0.004	
Adj. <i>R</i> ²		0.008		0.121		0.001	

Test of First Model (ROE)

Regression results of ROE model found that the variables of SBoard, IndepB and PManager have a

positive impact with firm performance. Conversely, the variable OThLSH has a strong negative impact on ROE. This is because majority of Bahrain businesses are family owned.

The study further found that the variables OThLSH and ChCSEO were not affected by ROE. According to the control variables, the study found a clear positive relationship between Leverage and ROE. This is because, in an ideal level of financial leverage, a company's ROE increases because the use of leverage increases stock volatility. This increases the level of risk, which then increases returns. The control variables CSize and FirmAge were not affected by ROE.

R^2 is 5.3% indicating that the sample defines the dependent variables in this model up to 5.3%. The F value for ROE is 11.779 and level of significance is 0.003, which is less than the standard deviation of 0.05. Thus, it can be inferred from statistical results that corporate governance variables have a significant impact on financial performance. Our paper finding of positive impact of governance on financial performance is in conformance with existing research results (Mitton, 2002). Mitton argues that good governance fosters good financial performance.

Test of Second Model (ROA)

The variables SBoard and IndepB were found to have a positive impact on ROA, but other variables were found to have no significant effect on ROA. Based on control variables, the results indicate that there is a positive relationship between total assets and return on assets. This is because ROA ratio shows the firms' increasing its profitability with relation to firms assets. In addition, ROA ratio demonstrates the efficiency of management in using the firm's total assets to generate income. Nevertheless, financial leverage shows negative impact on ROA. This is because, when a company borrows funds in order to increase its total assets, the management becomes less efficient in using its assets to make profit. It can be concluded that risk is always involved in borrowing funds. Risk increases when debt greater than profit generated from the firm's assets. This leads to large losses. Moreover, the variable firm age in this model was found to have no significant effect on ROA. R^2 and F-statistics of this model are 16% and 4.103 respectively. P-Value is 0.00 which is less than the standard 5% significant level.

Chiang (2005) conducted a study entitled "An Empirical Study of Corporate Governance and Corporate Performance". Findings show that corporate transparency has a positive impact on operating performance and is considered one of the most significant indicators for corporate performance evaluation. Chiang's findings supported our study results, since Chiang found a positive relationship between good corporate governance and operating performance.

Test of Third Model (EPS)

The third model represents the regression analysis for EPS. All the variables in this model show no significant relationship with EPS. This means that corporate governance has no influence on performance as depicted by EPS. In addition, all the control variables showing in the EPS model show significant connection to EPS. R^2 for the EPS model is 0.004, showing that about 0.4% of the sample identifies EPS. F-statistic is 0.825. P-value is 0.594, making it greater than the standard deviation of 0.05. Allen (2005) found similar results, supporting our research finding, and concluding that corporate governance mechanisms have no significant impact on stock performance as measured by EPS. In comparing the best regression model with the 3 models discussed in this paper, ROA is the one with the largest adjusted R^2 -value. The adjusted R square of the three models EPS, ROE, and ROA are 0.1%, 0.8%, and 12.1% respectively. This indicates that the best model in the current research is the ROA model.

Conclusion, Study Limitation and Future Studies

This study commences with a discussion of the impact of corporate governance characteristics on firm's performance in the Bahraini economy. Results of the study are based on several theoretical and empirical literature reviews on corporate governance characteristics from different countries. The Cadbury Committee defines corporate governance as "a system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities

among different participants in the company and spell out the rules and procedures for making decisions on corporate affairs” (OECD April 1999). Extant literature documents that corporate governance is successful in improving a firm's performance. The usefulness of good governance on company performance can be appreciated by recognizing that growth is significantly associated with the investment size and as the efficiency of investment allocation (Hauwa, Lamino, Abubakar, 2012).

As discussed earlier, the impact of corporate governance variables on firm performance in Bahrain was tested with a study sample selected from the 42 listed companies in Bahrain Bourse (BB) for a period of 5 years (2007- 2011). According to the performance dimension studied in this research, firm performance was tested using accounting measures such as ROE, ROA and EPS. Also, corporate governance variables were measured using the indicators OLSH, SBoard, OThLSH, IndepB, ChSEO and Pmanager. Descriptive results of the study found that the sample firms fulfill corporate governance requirements at more than the average level (61.2%) for the entire period in the study. This study found that shareholder ownership is more than 50% of most firms' outstanding shares in Bahrain Bourse. This is because the majority of Bahrain trade is family business. Results also found that the average of the size of board of directors the sample was 12 members. This is considered an ideal size. In addition, these boards are less independent. About 68.08% of firms in the data selected were not applying the board independence strategy. In addition, about 69.04% of the firms in the sample show separation of the CEO and board chair positions.

Empirical results found that corporate governance variables are significantly correlated with return on equity and return on assets as the performance measures in Bahrain Bourse. Hypotheses one and two are rejected. However, in our empirical study, EPS performance measure did not show any significant impact on corporate governance.

Two of corporate governance variables, SBoard and IndepB, were found to have a positive significant impact on ROE and ROA. In addition, the corporate governance variable PManager was found to have a clear positive relationship with firm performance as measured by ROE. However OThLSH has a strong negative association with ROE. Further corporate governance variables did not show any significant relationship to performance measures of ROE and ROA.

According to the control variables, the study provides evidence that leverage has a positive relationship with the ROE performance measure. In addition, the results indicate that a positive relationship between CSize and ROA. However, Leverage shows a negative relationship with ROA. In conclusion, the study provides evidence that corporate governance variables have a positive impact on firm performance in Bahrain Bourse as two out three models of our study support our thesis statement.

The study is limited because it only studies performance in companies in a period of five years (2001-2011). This sample may be skewed because the global financial crisis occurred during this period. Future studies may take longer and different time series or study the effect of global financial crisis on corporate governance. The study was conducted in Bahraini market. It is a small study sample conducted in an emerging market. Further studies may be conducted on the whole GCC market, because the GCC economies are considered to have many similarities in economic lows and the overall nature of economic structure.

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