

Title: Effect of Corporate Governance on Performance

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Abstract

Agency theory predicts that corporate governance enhance the convergence of interests between shareholders and managers. The purpose of this thesis is to analyse the effect of corporate governance on firm performance in the Egyptian securities market.

Based on the extant literature and after addressing the weaknesses in previous studies, the author develops a conceptual framework and a set of hypotheses to examine the relationship between board characteristics, ownership structure and firms performance. The author takes the approach of using two different performance measures: the accounting based performance measure and the market based performance measure.

Board characteristics considered in this thesis includes board size, presence of outside directors, CEO – chairman duality and gender diversity in board. Additionally, state ownership, private ownership, managerial ownership, and employee association ownership are the types of ownership adopted in this thesis. Firm performance is measured by return on assets (ROA) and Tobin Q. This thesis includes firm age, firm size and industry type as control variables.

The author tests the hypotheses on longitudinal sample of 70 firms over 6 year's period from 2005 till 2010. The sample includes the most active firms (EGX 100) on the Egyptian stock exchange. Empirical analysis is undertaken using pooled OLS and GMM regressions.

The findings of the study shows that board size and the presence of outside directors are positively associated with performance while CEO – chairman duality and gender diversity in board are negatively associated with performance measures.

With respect to the ownership structure variables, managerial, private and employee association ownership are found to be positively related to the performance measures. But for the state ownership, although a positive association with ROA is found still the author considers this finding a special case and provides further explanation for this unexpected finding.

On the basis of the empirical results, the thesis provides some recommendations. For instance, the Egyptian Stock Market needs to introduce new corporate governance regulations to increase compliance with the codes and implement some revisions of existing corporate governance code. Moreover, Egyptian companies need to reform their ownership structure. These suggestions may strengthen the internal governance of Egyptian listed companies, thereby, increasing firm performance.

The theoretical frame work and the findings of the thesis are expected to stimulate scholars for further research to identify the contingency conditions upon which board characteristics, ownership structure and firm performance may be dependent.