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IMPACT OF CORPORATE GOVERNANCE RULES ON FIRM PERFORMANCE IN UAE

Abstract: *Based on the literature available on corporate governance (CG) and its impact on firm performance, there is a dearth of research in the Middle East. In UAE, CG rules were introduced in 2009 for implementation from 2010. The aim of the study was to understand the impact of CG components-ownership structure, leadership structure, board composition, board size, financial expert in audit committees on firm performance in terms of Tobin's Q, Return on Assets (ROA) and Return on Equity (ROE) keeping total assets as control variable were assessed using secondary data on firms listed in Abu Dhabi stock exchange (ADX) and Dubai Financial Market (DFM) for the period of 2008-2009 (pre-CG) and 2011-2012 (post-CG) periods. The data were analysed using statistical techniques. The results showed that implementation of good governance practices need not necessarily increase or improve firm performance in the short-term as other external economic factors may have a direct impact on corporate performance. This research has implications for the UAE firms looking to improve their performance.*

Keywords: *Corporate Governance, Firm Performance, UAE*

1. Introduction

The main components of corporate governance (CG) which have been researched most are: ownership structure, leadership structure, board composition, board size and audit committee composition.

UAE introduced new CG rules in 2009 to be effective from May 2010. In the study reported here, the impact of certain components of CG on firm performance in terms of accounting parameters were researched and findings are discussed.

The paper provides a brief background for this work in this Introduction section and the research done on the topic and related matters are reviewed in section 2. This is followed by descriptions of reviews of works on firm performance measurement and Islamic corporate governance in sections 3 and 4. The context of the present study arises out of this review and is explained in section 5. The theoretical framework of the study is explained in section 6. This is followed by the aim, research question and objective of this study in section 7. Sampling, data collection and analysis methods are outlined in section 8. Results obtained in this work are presented and discussed topic-wise in section 9. In section 10, conclusions and recommendations are given.

2. Literature Review

Ownership structure includes the investment by families, private individuals, public shareholders, institutional shareholders, foreign ownership, stocks held by directors and managers. Welch (2003), Craswell,

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Taylor & Saywell (1997), Demsetz, Harold & Lehn (1985), Demsetz, Harold & Villalonga, (2001) and (Omran, Bolbol, & Fatheldin (2008) did not find any clear relationship between ownership structure and firm performance. Others like Shleifer & Vishny (1997), Zeckhauser and Pound (1990), Shleifer and Vishny (1988b), McConnell & Servaes (1990), Zeitun & Tian (2007), Kobeissi (2004) and Kumar & Singh (2012) obtained relationship between the two.

Whether the same person functions as both chairperson and CEO (duality of roles) or the two positions are held by two different persons (role separation) come under leadership structure. One view is that, combining the roles of the CEO and the chairperson can result in a dominant CEO which will lead to ineffective monitoring of the management by the board. According to another view, combining the two roles enables companies to decrease the cost of monitoring, bonding and incentives leading to improved company performance. Duality of CEO and chairperson is one of the specific governance mechanisms identified in internal CG mechanisms.

No effect of role duality was obtained by Daily, Catherine & Dalton (1992), Kiel & Nicholson (2003), Vafeas & Theodorou (1998) Weir, Laing & McKnight (2002) and Brickley, Coles and Jarrell (1997). Positive correlation was obtained by Boyd (1995), Sanda, Mikailu & Garba (2005), Rechner & Dalton (1991), Haniffa & Hudaib (2006). Combining the two roles was found better by Dehaene, De Vuyst & Ooghe (2001), Kiel & Nicholson (2003), Boyd (1995) and Donaldson & Davis (1991). Combining the roles will also reduce agency costs. Kajola (2008) obtained positive effect and Fooladi & Chaleshtori (2011) and Judge, Naoumova, & Koutzevol (2003) obtained negative effect for role duality on performance.

Whether the board includes a sufficient proportion of independent directors is considered in board composition. Positive impact of outside independent directors in the board on firm performance was noted by Liang & Li (1999), Dehaene, De Vuyst & Ooghe (2001), Weir, Laing & McKnight (2002), Jackling & Johl (2009), Baysinger & Butler (1985b) and Krivogorsky (2006). On the other hand, Klein (1998) found better performance with inside directors on the board. Negative impact of non-executive directors on firm performance was noted by Agrawal & Knoeber (1996), Bhagat, Sanjai & Black (2000), Yermack (1996) and Laing & Weir (1999). There is debate on whether outside directors (Agrawal & Knoeber, 1996) or inside directors (Fama, EFa & Jensen, 1983) can provide valuable information and knowledge for effective long term investment decisions based on stewardship theory.

The Dubai Islamic Bank code of CG stipulates a majority of non-executive directors on bank boards, (Dubai Islamic Bank 2010), consistent with the direction of UAE Ministerial Resolution No. 518 of 2009 Concerning Governance Rules and Corporate Standards (Al Mansouri, 2009). However, there is inadequate data on its effect on firm performance. The specific dimension of Islamic rules can influence the relationship in certain ways.

Inclusion of a financial expert in the audit committee is the most important. Positive effect for this on firm performance was reported by DeFond, Hann & Hu (2005) and McDaniel, Martin & Maines (2002).

2.1. Measurement of Firm Performance

The firm performance is assessed by using accounting and market efficiency parameters. Most of the works confine to Return on Assets (ROA), Return on Equity (ROE) and Tobin's Q. The works cited above used one or more of these variables to measure firm performance.

Bansal & Sharma (2016) found a positive effect of the dual role of CEO-chairperson and board size on firm performance. But

audit committee characteristics did not have any effect on firm performance. According to Bhandari, Lamba, & Seth (2014) board size and audit committee independence improved the performance of the firms irrespective of sector companies. The presence of independent directors on the board significantly decreased the firm performance. Vo & Phan (2013) showed positive effect for the duality of CEO and negative effect for board size on performance.

2.2. Islamic Corporate Governance

There is debate on whether the objective of a firm is only to enhance shareholder value (Friedman, 1970; Sundaram & Inkpen, 2004) or should look after the other stakeholders also (Donaldson & Preston, 1995; Freeman, 2010). In this respect, CG is specific to Islamic countries. Islamic corporate governance is a faith-based theoretical decision-making process that uses Islamic socio-scientific principles related to the epistemology of Tawhead: oneness of God. The Islamic view of CG is useful for minimising transaction costs in decision-making environments and achieving the objectives of the corporation within the framework of Sharia law or the Islamic rules and principles (Choudhury & Hoque, 2006). The main distinguishing attribute of Islamic CG is the mandatory presence of a Sharia Supervisory Board (SSB) as all business transactions have to be Sharia compliant. The UAE issued Federal Law No 6 of 1985 that clearly stipulates compliance of Islamic banks with Islamic Sharia law (Al Nahyan, 1985). It is also evident in the code of CG of the Dubai Islamic Bank benchmarked with global best practice (Dubai Islamic Bank, 2010). In the UAE context, Islamic rules also apply and hence board size is governed by having a required number of Islamic scholars on the board. No study on the effect of Islamic CG on firm performance has been reported.

2.3. Context of the Present Study

Research on the impact of CG on firm performance has mostly been done in the context of western countries. These models may not be exactly applicable to developing countries and emerging economies. Still much less studies are available in the case of works related to Middle East countries. The research work reported here addresses this gap as it uses UAE as the country context.

2.4. Theoretical Framework

The types of findings revealed by the literature review have been discussed above. Using them as the basis and taking into account the specific cultural characteristics of UAE, a research framework was proposed as given in Figure 1. CG instruments include ownership structure, board leadership structure, board composition, and board size, the role of the audit committee and the role of the sharia supervisory board. The variables identified from the review of literature are: return on assets (ROA), Tobin's Q, and return on equity (ROE).

The conceptual framework of the study is supported by agency theory, except the SSB variable which is supported by the Islamic perspective of corporate governance. Tobin's Q measures market value of a firm and is used as a proxy for market value which measures the share price to book value. Share prices are affected by accounting information and voluntary disclosures which are reflected in the value of the shares. Accounting information contains CG practices and voluntary disclosures, and better governed firms are valued more by investors (Deegan & Samkin 2004). The model illustrates the similarities and differences between both conventional and Islamic corporate governance instruments in relation to board structure.

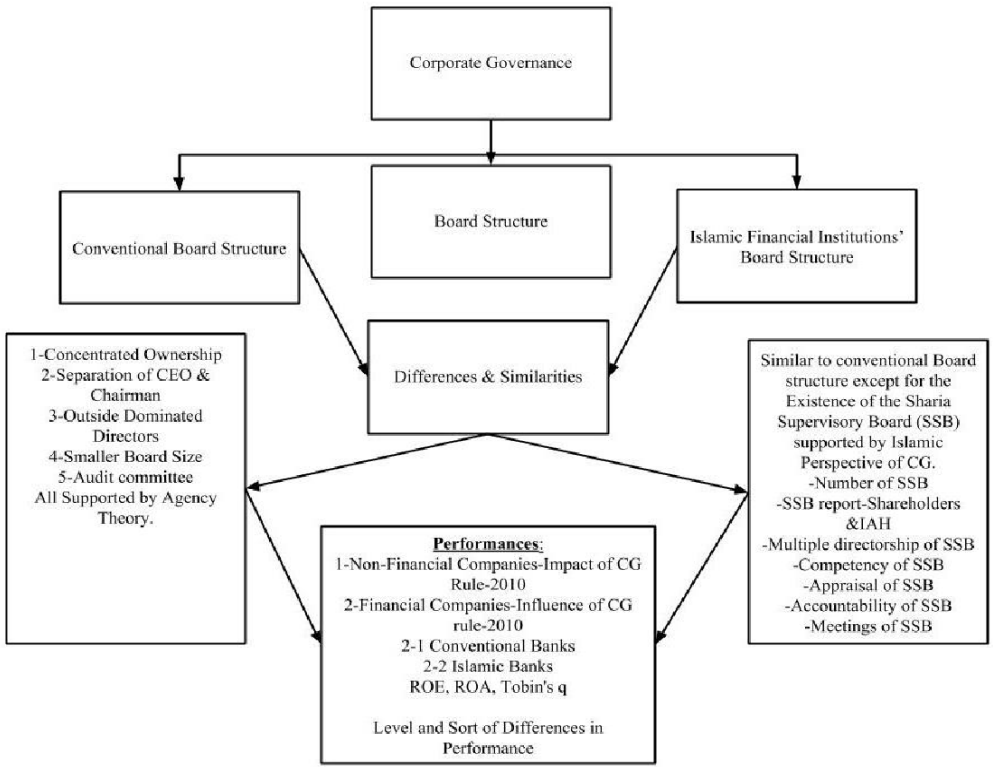

Figure 1. Conceptual framework of impact of CG on firm performance in UAE

2.5. Aim and Objectives

The aim was to evaluate the impact of CG on the accounting performance of firms listed in UAE after the firms were mandated to practice CG as per the new rules of 2009. Hence, the research question is

What is the impact of the new CG rules introduced in 2010 on CG variables and the performance of non-financial and financial firms and Islamic and conventional banks listed on the Dubai Financial Market (DFM) and Abu Dhabi Exchange (DDX)?

The objective of the study was to determine to what extent the CG rules of UAE have an impact on the overall corporate performance and how Islamic and non-Islamic differ in this aspect. The firms of the following sectors were considered

- Non-financial companies
- Financial companies
- Islamic banks
- Conventional banks
- Sharia versus conventional banks

3. Methodology

The study consisted of 122 firms listed in UAE including Islamic banks. This was necessary to ensure adequate sample size for validity of data analysis methods. To evaluate the impact of the new CG rules in force from 2010, the data before new CG rules (2009 and 2010) and after the new CG rules were in force (2011 and 2012) were collected. Data on CG and financial results were collected from annual reports of firms. The methods of collection/estimation of data on different variables are explained in Table 1. The collected data were analysed using descriptive statistics, ANOVA, regression analysis, t-test and Spearman's correlation.

Table 1. Methods of collecting data on different variables

Variables	Measurements tools	Symbol
Ownership structure	Ownership concentration (OWN) is a dummy variable equal to '1' if some shareholder owns a 5% or more of shares in the firm, and '0' otherwise.	OWN
Leadership structure	Dummy variables 1 for combined roles and 2 for separate role.	Duality
Board Composition	Proportion of independent outside directors to the board size.	PO
Board size	Total number of directors.	BSIZE
Audit Committee Composition	Aidot cp,,ottee financial expertise is equal to 1 if the audit committee includes at least one financial expert and 0 if otherwise.	ACEXPD
Sharia Supervisory Board (SSB)	SSB is equal t 1 if Islamic bank comply with variables of regulatory index exist and 0 if otherwise.	SSB
Firm performans Tobin's q	Market capitalisation + total assets – shareholders' funds / total assets.	TQ
Return on total assets	Profit after tax / book value of total assets.	ROA
Return on equity	Profit after tax / shareholders' funds.	ROE
Control variables Company size	Price per share multiplied by total number of outstanding shares or by market capitalisation & total assets.	Firm Sizes

4. Results and Discussion

None of the differences for any CG variable or performance variable between pre-2010 and post-2010 period was significant. However, some important trends are discussed.

4.1. Ownership Structure

Out of the 122 firms, family, foreign and government ownerships remained almost steady before and after the new CG rules came into effect. There was some increase in institutional ownership from pre-CG (mean 19.3%) and post (mean 34%) CG. Individual ownership also increased from the mean value of 9.2% in pre-CG to 32.4% in post-CG periods.

4.2. Leadership Structure

About 77% of firms had their chairperson and CEO roles separated during the pre-CG period. It remained virtually the same post-CG period also. Many of the codes and rules are not applicable for individual ownership. For example, the requirement for a non-executive or independent director does not apply in the case of an owner/manager. Most firms are reluctant to be bound by regulations about how to conduct their business. Thus, implementation of role separation was determined by ownership structure rather than CG rules.

4.3. Board Composition

The percentage of firms with executive directors in their boards decreased from 88.2% in pre-CG to 73.8% in post-CG period. This was accompanied by a decrease in the percentage of firms having non-executive directors from 5.48% in pre-CG to 2.70% in post-CG period. The percentage of firms with independent directors increased from 2.67% in pre-CG time to 4.21% in post-CG time. But the number of firms

complying with the regulatory expectation of more independent directors was only partially met by a small number of firms. This may be due to the optional nature of this clause in the CG rules. The greater impact of individual ownership seems to have undermined the effect on the proportion of dual leadership due to the increase in institutional ownership.

The proportions of both executive and non-executive directors on boards declined from the pre-governance to the post-governance period. There were also many firms without executive directors on their boards. This should have increased the proportion of independent directors, as was observed. But it cannot be stated that this increase compensated for the decline in executive and non-executive directors, because compared to about a 36.6 per cent increase in independent directors, the combined decline in executive and non-executive directors was about 44.8 per cent. In the post-governance period, the proportion of non-executive directors significantly decreased from 5.48 to 2.7. Therefore, there was a general decline in the proportion of non-executive directors. This could also have been due to conversion of firms to individual ownership.

4.4. Board Size

There was a decrease in board size from 8.23 in pre-CG time to 7.76 in post-CG time. Evidently, the decrease in both executive and non-executive directors was sufficient to compensate for increase in independent directors for a cumulative reducing effect on board size, however short of statistical significance.

4.5. Financial Expert in Audit Committees

More firms complied with the regulatory requirement of a financial expert in the audit committee post-CG period (6.1% in pre-CG to 29% in post-CG). Significantly, more firms (29 per cent against 6 per cent) included a financial expert in their audit committees during the post-governance period. This was expected to improve performance with better financial management and prevention of fraud. Risks involved in not having adequate internal controls would have prompted more firms to comply with this regulation. Still a large percentage (94% in pre to 71% in post-CG period) had not yet complied. Hence the new rules had some influence, but not high impact.

4.6. Performance Variables

4.6.1 Tobin's Q

At 1.16 in pre-CG and 1.19 in post-CG periods, Tobin's Q was showing indications of improvement. In this study it is assumed that the effectiveness of governance increases with increasing compliance with corporate governance rules. Although there was no overall effect, performance of the low-end firms (Tobin's Q = 0.033 decreased to -1.43) did not benefit from the governance rules, possibly because they were at too low a level to obtain any significant impact. Their presence in the market would also be too low to enhance firm market value. Firms in the top end with high pre-governance Tobin q values (15) benefitted from the rules as they were more market-efficient and thus obtained a higher Tobin's Q value of 40.75 in the post-governance period. It may not be possible to ascribe the small increase to CG rules impact. However, over a sufficiently long time, Tobin's Q may improve. The higher the value the better the market performance due to better governance.

4.6.2 Return on Assets (ROA)

ROA declined from 3.02 in pre-CG to 2.00 in post-CG times. The minimum values were often negative. In such cases, instead of creating value for shareholders, value was decreased. However, the negative value of post-CG was lower (-24.2) compared to the value (-44.3) of pre-CG period. It is the ratio

of profit after tax to total assets. Therefore, ROA is often used to gauge the profitability of a business. Firms at the lower end of profitability (-44.3) benefitted by CG rules, as changes in their asset values are lower compared to changes in profit and are reflected in higher ratios. Firms which were at high levels of profitability (29.2) might either have increased their assets more than proportionate to profit growth or they may not have utilised their assets to the optimum level. The global economic crisis could have forced large companies not to go for aggressive profit making.

4.6.3 Return on Assets (ROA)

ROE showed an increasing tendency from 6.88 to 8.40. But the increase was inadequate to be caused by CG rules. A company is more efficient when it is capable of generating high profits using shareholder equity. This can lead to high dividends to shareholders. Therefore, when compared to Tobin's q or ROA, ROE it is more relevant to changing governance mechanisms as it is directly related to shareholders' return. At the lower end of the values, although market efficiency was lower (indicated by decreasing Tobin's q), better utilization of assets (ROA) and better utilization of shareholder funds (ROE) increased profit of lower end firms. Increase in maximum values indicates the capability of high end firms in using share equities for large profit increases as their market performance (Tobin's q) is also high.

4.6.4 Total Assets

Total assets was a control variable and indicated a small decrease in the post-CG period. It may not have major consequences during the short time of implementation.

4.7. Comparison Between Islamic and Conventional Banks

4.7.1 Ownership Structure

None of the differences between pre and post-CG was significant for both Islamic and commercial banks. However, some trends are indicated. Family ownership decreased from 10% in pre to 4% in post-CG period, while it remained at 1% for both periods in conventional banks. The percentages being very low, it is not possible to ascribe the differences to CG rules. Institutional ownerships increased from 41% to 48% (Islamic banks) and from 13% to 35% (Conventional banks) from pre- to post-CG periods. Foreign ownership increased from 5% (pre) to 9% (post) for Islamic banks, and it remained zero for both periods in the case of conventional banks.

Government ownership decreased from 27% (pre) to 13% (post) in the case of Islamic banks and from 19% (pre) to 20% (post) in the case of conventional banks. Individual ownership increased from 16% (pre) to 26% (post) in the case of Islamic banks. For conventional banks, the corresponding values were 8% and 13% respectively.

4.7.2 Leadership Structure

All Islamic and conventional banks had separated the roles of CEO and chairperson even before the rules came into force. This was evident from the same value of 2.0 recorded for mean, maximum and minimum values for both pre- and post-CG periods.

4.7.3 Board Size

Before the CG period, both Islamic and commercial banks had similar board sizes (7.5 and 7.33 respectively). For Islamic banks, the board size remained the same at 7.75. But, for commercial banks, the mean board size increased to 9.7. To comply with CG rule to have more non-executive and independent directors, conventional banks

would have added the required numbers of such directors to the current boards. However, as all the data on board composition were not available, it is not possible to verify this.

4.7.4 Audit Committees

There was inadequate data regarding inclusion of a financial expert in the audit committees. Hence, results on this aspect cannot be described here.

4.7.5 Firm Performance

In the case of firm performance measures, there was no change in Tobin's Q. Slight decreases in ROA and was noted in the case of Islamic banks from 1.28 in pre to 0.81 post-CG. ROA was almost similar at 1.47 in pre and 1.62 in post-CG periods in the case of conventional banks. In the case of Islamic banks, ROE decreased from 11.0 in pre-CG to 5 in post—CG periods. In the case of conventional banks, ROE increased from 8.50 to 10.45 between pre and post–CG periods. Total assets remained the same at 23.00 in pre and 23.22 in post-CG periods in the case of Islamic banks. It was similar at 22.11 and 22.53 for pre and post-CG periods in the case of conventional banks also. The overall comparison of Islamic and conventional banks averaged over all periods of study showed significant differences only in the case of foreign investment.

4.8. Sharia Supervisor Boards

All Islamic banks complied with all requirements of AAOIFI as the mean 1 indicates compliance and there was no deviation.

4.9. Correlation and Regression Analysis

Based on the correlation results during both periods, variables related to ownership concentration and board structure had the greatest impact. Among the performance variables, ROA was positively correlated only with family ownership in the pre-governance period. ROA and ROE were negatively associated with individual ownership in the pre-governance period and ROE positively associated with government ownership in the post-governance period. Tobin's Q and TA were the most frequently affected performance variables during the pre-governance period.

TA was the only performance variable affected during the post-governance period. Based on these results, as TA is not a performance measure, it is difficult to conclude that the performance of firms which have ownership concentration or board structure in compliance with corporate governance rules were impacted positively.

4.10. Ownership Structure and Firm Performance

4.10.1 Family Ownership

Positive relationships were observed for family relationship with ROA and ROE and for government ownership with Tobin's Q. Negative relationship was noted for family ownership with Tobin's Q. ROA is the ratio of net profit after tax to total assets. It indicates the utilisation efficiency of assets to generate profits. Family owned firms invest their funds very carefully by selecting the best profit options. With good management structure involving mostly family numbers, such efficiency can be more likely achieved.

4.10.2 Government Ownership

In the pre-governance period, increasing proportions of government ownership increased total assets as the government invested to fund its projects. Also, many investors may consider government-owned firms safer for investment even if the returns are lower. Thus total assets increased with increasing proportions of government ownership which also continued during the

post-governance period. In the post-governance period implementation of corporate governance rules increased the efficiency of government owned firms and thus profits were obtained from equity investments, increasing ROE.

4.10.3 Individual Ownership

negative relationship of individual ownership with ROA and ROE during the pre-governance period changed to a negative relationship with TA during the post-governance period. TA is the denominator of ROA, but not of ROE. In the pre-governance period, increasing proportions of individual ownership decreased ROA and ROE. Both can decrease when total assets increase. Increase of individual ownership means an increase in the number of single ownership firms. When profitability declines single owners may try to save the situation by selling off some of their assets. This will reduce total assets. Total assets declined although the proportion of individual ownership continued to increase during the post-governance period, possibly to escape the strict requirements of the new corporate governance rules. This means that the observed relationships are free of any effect of CG rules.

4.10.4 Foreign Ownership

Foreign ownership was affected only in the post-governance period. It was positively correlated with TA after corporate governance rules were implemented.

4.10.5 Leadership Structure

Leadership structure was positively correlated with TA only in the pre-governance period. When more firms adopt the structure of having a separate chairman and CEO, there is greater compliance with corporate governance rules. The separation of roles would have helped to improve the efficiency of firms to acquire assets and more equities, and resulted in higher TA. This had already occurred in the pre-governance period, and no effect was observed in the post-governance period. Separation of the roles of chairperson and CEO was shown to result in better performance (Haniffa & Hudaib 2006), increased ROE and ROI (Rechner & Dalton 1991), and increased firm value (Yermack 1996).Other studies also show negative or neutral results. However, this study supports the positive effects of role separation. Leadership separation levels remained unchanged in the post-governance period. The relationship effect is due to leadership separation, rather than compliance with the new rules, already being practised in many listed firms.

4.10.6 Board Size

The significant relationship between board size and total assets both in the pre- and the post-governance periods is not surprising. As stated above, total assets represent firm size. Generally, the board size increases with the firm size, although it may not be proportional. There are numerous studies on the effect of board size on performance such as those by Hillman, Keim & Luce (2001); Pfeffer (1972b); Dalton et al 1999; Hillman & Dalziel (2003); Jensen (1993); Singh & Davidson (2003); Yermack (1996) and Lipton & Lorsch (1992). Board size was negatively related with Tobin's Q in the pre-governance period. This effect disappeared during the post-governance period. As both board size and Tobin's Q remained constant between the pre- and the post-governance periods, no relationship existed.

4.10.7 Board Composition

A higher proportion of executives on the board increased Tobin's Q only in the pre-governance period. Tobin's Q reflects efficiency of market capitalisation. While agency theory supports more outside directors, stewardship theory supports more

inside directors. Donaldson & Davis (1991) observed that inside directors are more capable of dealing with business complexities of the firm, as they have inside information, while Klein (1998) noted that the more the inside directors the better the performance, and that this reduced investment risks due to their better knowledge of firm operating conditions. The effect disappeared and no other effect was observed in the post-governance period.

The negative relationship of non-executive directors with Tobin's Q during the pre-governance period changed to a negative relationship with TA during the post-governance period. Total assets are the denominator of Tobin's Q. In the pre-governance period, either total assets increased or firm market value decreased or both occurred in such a way that the net effect was decreasing Tobin's Q.

TA was negatively related with an increased proportion of independent directors on the board during the post-governance period. More independent directors led to less total assets after corporate governance rules were implemented. With the decreased level of non-executive directors, efficiency due to lack of monitoring would have been reduced, affecting TA.

4.10.8 Audit Committees

There was a positive correlation of having a financial expert on the audit committee with TA during the pre-governance period. An audit committee prevents financial irregularities in the firm. The presence of an effective audit committee enhances the trust of investors and consequently increases investments. Thus TA will increase. Here, only 6 percent of the firms had a financial expert in the audit committee in the pre-governance period. Yet this effect was observed only in the pre-governance period although compliance with this provision of corporate governance rules increased significantly in the post-governance period.

4.10.9 Regression Model

The regression coefficient values showed that for every one unit increase in family ownership, ROA will increase by a factor of 5.31, ROE will increase by a factor of 17.12 and Tobin's Q will decrease by a factor of -2.80. Institutional and government ownerships did not have any impact on performance. Government ownership decreased Tobin's Q by a factor of -2.38. As per the negative relationships of individual ownership, ROA decreased by a factor of -3.25 and ROE decreased by a factor of -9.52. One unit of role separation decreased ROA by -1.63 units. Proportion of non-executive directors did not have any impact. Board size and inclusion of a financial expert in the audit committee did not affect firm performance. Increasing the proportion of family or government ownership increases ROE and to a lesser extent ROA and decreases Tobi's Q.

Islamic Versus Conventional Banks

In many studies, there are no clear and significant differences in performance variables. Better economic stability due to better asset quality, credit and assets growth and capitalisation, but with weak risk management and lower profitability, have been reported (Hasan & Dridi 2010; Beck Demirgüç-Kunt & Merrouche 2013). No significant difference between the two types of banks was reported by Bourkhis & Nabi (2013) in withstanding crises. Islam, Alam & Hossain (2014) reported that conventional banks were more profitable in Bangladesh with higher ROA and ROE.

Generally the two types of banks are compared for various operational efficiencies and quality of operative variables. Difference exists in credit performance, but not in profitability or liquidity in Bahrain (Samad 2004). Islamic banks were better with respect to total equity, total deposits, total investments and total assets (Iqbal 2001) in capital adequacy, better liquidity, and fewer loan losses,

whereas conventional banks were better for managerial efficiency and earning ability (Jaffar & Manarvi 2011).

5. Conclusion

5.1. Recommendation

The post-CG data were collected just after one year of implementation. It is too short a time to feel the impact of CG rules on firm performance. However, some trends of impact were noticed in the results obtained. The study needs to be repeated after at least ten years have elapsed, say in 2020. Future studies should focus on less researched aspects, especially in non-Western countries. In addition to this, the UAE government will do well by removing obstacles to implementing the CG rules.

In the CG rules, items, for which strong evidence exists, can be made mandatory. Items, for which evidence is still doubtful, can be made optional or refined. Effects of role duality, board structure and board size are less clear. Effects of financial expertise in audit committees may be more decisive. Regarding ownership structure, individual and family ownership firms can be excluded from strict compliance with CG rules of role duality. Government owned firms can show the way as models by suitably reforming the inherently inefficient slow processes. One way of attracting FDI is to encourage foreign partnerships and ownerships through liberalised systems, policy and institutional reforms. This research has implications for the UAE firms looking to improve their performance.

5.2. Limitations of This Study

There were two limitations. One limitation was that data was collected within a short time which may be the initial learning phase and hence clear effects on performance may not have been captured by the data. The results could be different in the long term. The second limitation was that only secondary data was used. Since there were only four Islamic banks, the effects may be exaggerated. If there were more Islamic banks, it would have enhanced the reliability of the results.

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