

The Impact of board characteristics on Firm Performance: Evidence from Nonfinancial Listed Companies in Kuwaiti Stock Exchange

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Abstract

The core aim of this study is to examine the relationship between board characteristics and the firm performance of non-financial listed Kuwaiti firms. To achieve the objectives of the study, the data were collected from a sample of 136 companies for the financial year 2009. Variables such as CEO duality, COE tenure, audit committee size, board size and board composition were considered as predictors of the firm performance that was measured employing the return on assets (ROA). By contrast, the effects of CEO tenure and leverage on firm performance were found to be negative and significant at the chosen level of significance. To test the hypotheses of the study, multiple linear regression analysis using SPSS 18.0 was utilized.

Using the firm size and leverage as a control variable, the findings of the study support the positive effects of CEO duality and audit committee size on ROA. Other findings of the study were discussed in the discussion section and some other future study directions were provided.

Keywords: Kuwaiti Stock Exchange, board characteristics, Firm Performance

1. Introduction

Businesses around the world require development and growth in order to attract funding from investors. Before they invest in a particular business, investors normally make sure that the business in question is financially secure and stable and possesses the ability to produce profits in the long run (Mallin, 2007). Hence, in instances where the company position is not as promising, it will not be as attractive to investors as it hopes to be. This failure to attract enough capital normally leads to negative consequences for the business in particular and for the economy in general.

Based on the agency theory, the agency relationship is a contract whereby one or more person (principal) engages another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent (Jensen & Meckling, 1976). Nevertheless, the theory also holds the notion of the inappropriateness of management or the agent in taking the best possible action for the public and for the shareholders' sake as the agents generally act in their own interests. Therefore, for the achievement of a balanced alignment between the principal's and agent's interests, and to remain within the agency budget, different internal as well as external corporate governance mechanisms have been expounded on (Haniffa & Hudaib, 2006).

According to the Organization for Economic Cooperation and Development (OECD), it has been stated that "good corporate governance is essential for the economic growth led by the private sector and for the promotion of the social welfare". In retrospect, since 1997, the Asian financial crisis has brought about a whole new meaning to corporate governance as evidenced from the crisis of confidence in the institutions and legislations that make up the governance of business and interactions between business and government.

Further reiterating the importance of board of directors was done in the study carried out by Fama and Jensen (1983) who considered it as one of the main elements of governance. This is further evidenced by Limpaphayom and Connelly (2006) who stressed on the need and the effective characteristic of the role of the board of the directors in overseeing management. Additionally, it has also been argued that elements of the corporate governance such as CEO duality, CEO tenure, audit committee size, board size and board composition have an influence on the firm and its financial performance (Fama & Jensen, 1983; Coles & Jarrell 2001; Weir et al., 2002).

The Gulf region has been growing in terms of importance to the global economy after the discovery of the oil. In other words, the gulf region has become the gate of foreign investment to the Middle East region because it has a richer infrastructure and oil related business opportunities. And hence, the gulf countries began to initiate laws and rules which forward to protect a local and foreign investors. These are to promote the confidence of investors. Although the corporate governance in the Gulf States is still in the early stages of

development. But the study also indicates that real progress has happened with the start of the States to amend existing laws to companies and to strengthen mechanisms to meet the requirements of accounting and corporate governance in companies. Aware of the fact that good governance is a key factor in ensuring the sustainability of growth and development in the Gulf region. It can be seen that the decision-makers started to hold the lead and are committed to apply the criteria safer for corporate governance in the six GCC countries (Abdul Kadar, 2009).

A close look at the performance of the Gulf markets shows during the recent period shows that the overall performance of Gulf countries' market, which are the collective performance of companies in each country, has a fluctuation and tend to decline significantly at the end of 2009 based on the latest available data and as illustrated in the graphs in Figure 1. Apart from the effect of the global financial crisis, the declining performance of the Gulf markets can be partially attributed to the lack of capital required to run or expand the business due to the decline of FDI inflows resulted from the lack of confidence of investors in the management practices of the Gulf companies. In other words, the lack of effective corporate governance mechanisms implemented in the Gulf business environment has hindered the enhancement of the company's performance due to the willingness of investors to confidently invest. This situation called for more researchers to be conducted in the Gulf region to explore the extent to which the corporate governance could affect the performance of firms in various business sectors.

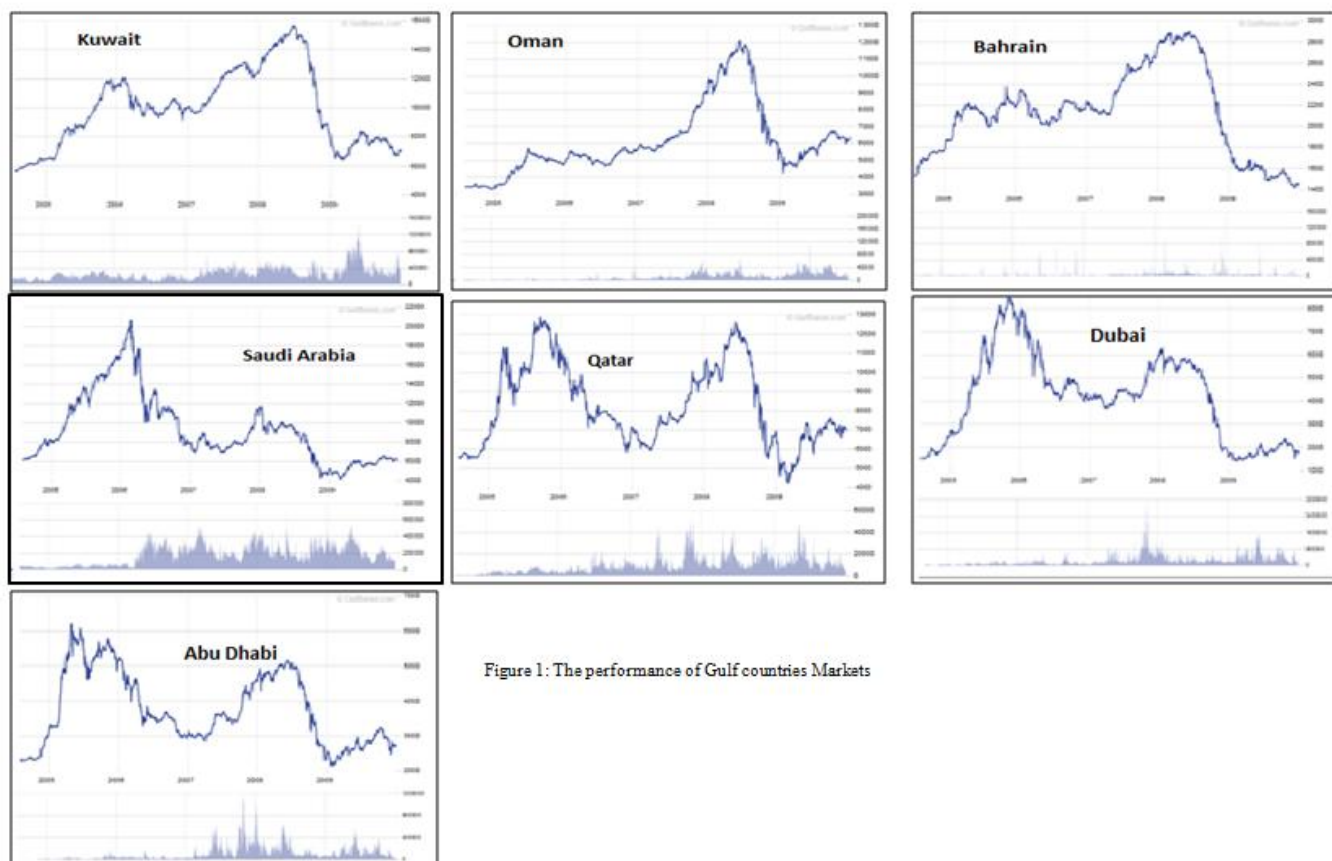


Figure 1: The performance of Gulf countries Markets

As one of the countries of the Gulf region, Kuwait is one of the most important producers and exporters of oil not only in the Gulf region but also in the world, a founding member of the Organization of Petroleum Exporting Countries - OPEC, and has the fifth-largest oil reserves in the world. Moreover, Kuwait has 10% of oil reserves in the world. However, oil and its related products represent about 95% of the export earnings and 80% of government revenues. It is considered one of the most developed countries in the Arab League, the fourth richest country for per capita income (GCC Stock markets website, 2011).

The government of Kuwait has undertaken measures to improve its investment climate to make it more attractive to domestic as well as foreign capital investments. For instance, foreign investors are able to take up more than a single license for a number of business activities in Kuwait and a licensed business entity is generally permitted to possess the real estate that is required to carry out business activities as in the case of provision of employee housing facilities.

Briefly, the main aim of this paper is to empirically investigate the impact of corporate governance (CEO duality, CEO tenure, audit committee size, board size and board composition) and firm performance among non-financial Kuwaiti firms.

The remainder of this paper is focused on reviewing the relevant literature, describing the sample, data, and methodology and presenting the empirical results. A discussion of the findings and some ideas for future research are provided in the last section of the paper.

2. Literature Review

It is widely argued that when firms possess good governance systems, they display better performance as compared to other firms.

This study has enlarged the literature of prior studies that examined the relationship between corporate governance (board characteristics) and firm performance. There are several studies have been done in developed and developing countries (Baysinger & Butler, 1985; Rechner & Dalton, 1991; Coles & Jarrell, 2001; Rhoades et al, 2001; Khatri et al., 2002; Judge et al., 2003; Brown & Caylor, 2004; Klapper & Love, 2004; Chen et al, 2005; Haniff & Hudaib, 2006 and Kajol & Sunday, 2008) which examined the relationship between corporate governance and firm performance. A thorough review of the relevant literature revealed that there is a paucity of studies examining the performance implications of corporate governance in the developing countries, in general, and in the Gulf region, in particular. This calls for further research work to be put forth to examine this relationship and that is the direction this study is trying to contribute to through examining the between corporate governance and firm performance of Kuwaiti listed companies.

Corporate governance has been shown to be documented in an effective manner in the literature. For instance, most studies have examined the impact of the board characteristics (CEO duality, CEO tenure, audit committee, board size and composition of the Board) on firm performance. Hence this study will investigate the relationship between corporate governance mechanisms namely, CEO duality, CEO tenure, audit committee size, board size and board composition with the firm's performance.

2.1 CEO Duality and Firm Performance

One aspect of corporate governance, which has given rise to concern, is the dominant

personality' phenomenon that includes role duality, where the chief executive officer (CEO) or managing director is also the chair of the board. The agency theory argues that in favor of the separation of the CEO and chairman within the organization as it is imperative to establish efficient and effective check and balance by the board and CEO; non-duality leads to better performance than their counterparts without separation i.e., CEO duality (Fama & Jensen, 1983; Ramdani & Witteloostuijn, 2009).

Alexander, Fennell and Halpern (1993) argued that CEO duality plays an important role in affecting the value of a firm. A single person being the Chairman and the CEO leads to the enhancement of the firm's value and the cost between the two is eliminated. However, White and Ingrassia, (1992) indicate that CEO duality can lead to the board's worse performance as the board is unable to remove the underperforming CEO which can generate agency costs in cases where the CEO works for his own interest as opposed to the shareholders. Yermack (1996) argue that, when the CEO and board chair positions are separate, it increases the firm's value. Fama and Jensen (1983) argue that CEO duality in a firm favours the underperforming CEO as it is difficult for the board to remove him.

There are several studies which have examined the relationship between CEO duality and firm's performance but the results still lacks the consistency. For instance, Donaldson and Davis (1994) study the relationship between CEO duality and firm's performance by using a sample of US companies. Their findings supported the positive relationship between CEO duality and performance and they concluded that companies with CEO duality demonstrated a greater return on equity (ROE) and shareholder wealth when compared to other companies. Similarly, Rechner and Dalton (1991) carried out a study on a sample of Fortune 500 companies. They found that the CEO duality has a strong impact on the firm's financial performance. Related to that are the findings of Goyal and Park (2002) that asserted that companies without CEO duality possess lower sensitivity of CEO turnover to firm performance. Sanda, Mukaila and Garba (2003) did a study on the performance of Nigerian companies and revealed a positive correlation between separating the functions of the CEO and Chairman and firm performance. While Boyd (1995) found a positive relationship between performance of US firms and CEO duality, Vafeas and Theodorou (1998) and Baliga, Moyer and Rao (1996) have found that there is no significant association between CEO duality and firm performance.

On the contrary, Ramdani and Van (2009) concluded that CEO duality has an effect on firm performance solely on firms displaying average performance as opposed firms performing below or above par. Similarly, according to the conclusion drawn by Haniffa and Hudaib (2006), despite the duality being uncommon in Malaysian corporations, companies with role duality seemed to perform worse than their counterparts with separate board leadership. In their study to examine the effect of corporate governance on Malaysian firm performance, Brickley, Coles and Jarell (1997) revealed that the CEO duality has no effect on firm performance. Based on the previous arguments and other supporting ones, it is reasonable to test the following hypothesized relationship:

H₁: There is a significant relationship between CEO duality and firm performance.

2.2 CEO Tenure and Firm Performance

The leadership position of CEO in many studies has been measured by the number of years in leadership positions. Directors generally have limited tenures in their positions due to some sort of succession plan implemented frequently. This is done to prevent the provision of excessively long-term contracts which leads to the increase in the cost of management dismissal in case of poor performance.

Several studies that have been conducted to investigate the relationship between CEO tenure and firms' performance found mixed results. For example, Kyereboah-Coleman (2007) found that there is negative relationship between CEO tenure and Ghana firms' performance. Performance-related turnovers are clearly observed in cases where the CEO left before retirement. In other words, the shorter the CEO's tenure, the poorer is his performance. However, in cases where the top executive remains longer with a company until normal retirement age, performance is not an explanation for the change in CEO turnover. From another angle, longer CEO tenure means that the CEO is able to exercise power based on the argument from information asymmetry or CEO might have an indirect control of the board of director.

On the contrary, In an earlier study carried out by Finkelstein and Hambrick (1989), they found that there is no significant relationship between CEO tenure and firms' performance. Thus it is meaningful to test the relationship postulated in the following hypothesis:

H₂: There is a relationship between CEO tenure and firm performance.

2.3 Audit Committee Size and Firm Performance

An audit committee refers to who is generally responsible to oversee the financial reporting and communication with the firm. The committee provides an invaluable communication between the internal and external auditors and the board helps to ensure it covers all the issues relevant to the audit. It is imperative for the board to set up an audit committee comprising at least three members who are non-executive directors, or two members in small businesses (Mallin, 2007). Kajol and Sunday (2008) argued that an increase of the numbers of the audit committee members indicates more experts available at hand for the overlooking of internal controls and financial reporting. Various accounting standards and principles must guarantee that general rules and regulations are employed by accountants in a large scale when they prepare financial statements and reports reflecting the exact state of the company (Yan, Jian, & Nan, 2007).

Studies, in the literature, investigating the relationship between audit committee size and firms' performance found mixed results. For instance, Kyereboah-Coleman (2007) found that there is a positive relationship between audit committee size and firm performance. This was so, since the size of the audit committee may be related to the effectiveness to monitor mistakes in the financial reporting process and may lead to a positive impact on the firm performance.

Similarly, Klein (1998) used a sample of 122 companies in the U.S to investigate the relationship between audit committee size and earning management. His findings confirmed the existence of a negative correlation between earnings management and audit committee

size. In addition, he found that when the capacity of audit committee size is big that it may lead to a declining firm performance. Based on the above, the following hypotheses are formulated:

H₃: There is a relationship between audit committee size and firm performance.

2.4 Board Size and Firm Performance

Board size refers to the number of directors in the board. It is an important factor to determine the effectiveness of the board. Jensen and Meckling (1976) argued that a bigger size board of directors may improve the companies' board effectiveness and support the management in reducing agency cost that resulted from poor management and consequently leads to better financial results. The Chairman should be allowed to provide commands to all the executive and non-executive directors.

In the relevant literature, even though there have been many studies that examined the relationship between board size and firm performance, the findings turned up to be inconclusive. In examining this relationship in the Japanese listed companies, Yokishawa and Phan (2004) found that there is a negative association between board size and firm performance. Similarly, Shakir (2008) found a negative relationship between board size and firm performance which supported the conclusion of Jensen (1993) that for a firm to be effective in its monitoring, it should have a relatively small board of directors. In relation to that, Haniffa and Hudaib (2006) argued that a large board is seen as less effective in monitoring performance and could also be costly for companies in terms of compensation and increased incentives to shirk. The same conclusion was drawn by Bozeman and Daniel (2005) based on his study carried out on the Canadian public companies. His conclusion implies that the board size was also shown to have a negative relationship with performance measured by return on sales, sales efficiency and ROA.

On the contrary, prior studies regarding the size of the board supported the positive relationship between the size of the board of directors and corporate performance. Large boards are viewed to lead to a better business performance owing to the wide variety of skills present for better decision making and monitor the performance of the CEO. For example, Adams and Mehran (2005) found a positive relationship between board size and performance in the U.S. banking industry. Moreover, Rechner and Dalton (1991) have also reported that large boards are associated with stronger performance. These results supported the conclusion made by Pfeffer (1972) and Zahra and Pearce (1989) regarding the relationship between the board size and firm performance. Therefore, based on the theoretical perspective and discussion above, the following hypothesis is formulated:

H₄: There is a significant relationship between board size and firm performance.

2.5 Board Composition and Firm Performance

Board composition has been highly debated in the realms of economics, organizational science literatures, and finance on the empirical and the theoretical levels. It has also been debated that effective ways of monitoring can assist the boards in making executives

effectively take care of the shareholder's interests rather than their own (Ramdani & Van, 2009). According to agency theory, a larger proportion of independent directors generally provide better firm performance. In general, it has been concluded by Ramdani and Van (2009) that the proportion of independent directors has an effect on firm performance.

Previous studies examining the relationship between board composition and firm performance have been inconsistent. For example, some researchers (such as Forsberg, 1989; Hermalin & Weisbach, 1991; Zahra & Pearce, 1989) found that there is no significant relationship. On the other hand, other studies found that firms with board of directors dominated by outsiders are able to perform better (Adams & Mehran, 1995; John & Senbet, 1998).

Moreover, Forsberg (1989) found no relationship between the proportion of outside directors and various performance measures. From a different perspective, some other researchers (such as Kosnik, 1987; Kyereboah-Coleman & Biekpe, 2006) found a positive association between the proportion of outside board members and performance. Arguably, many studies (such as Klein, 1998; Rechner & Dalton, 1991; Pearce & Zahra, 1992; Baysinger & Butler, 1985) supported the premises of the agency theory. Hermalin and Weisbach (1991) and Bhagat and Black (2002) found there is no relation between the degree of board independence and four measures of firm performance. Based on the theoretical perspective and discussion above, the following hypothesis was to be tested:

H₅: There is a relationship between board composition and firm performance.

This study also considered the effect of two control variables namely, firm size and leverage, when investigating the corporate board characteristics and firm performance relationship. The two variables were briefly described as in the following.

2.6 Firm Size

Using firm size as the control variable in this study is motivated by the fact that it has been found to be associated with companies with different characteristics. Lehn et al. (2003), argued firm size and growth are important determinants of the size and structure of the boards. They found that firm size is directly related to the size and inversely proportional to the proxy for growth opportunities, that insider representation is inversely proportional to firm size and directly related to the proxy for opportunities growth and thus, a firm size has an effect on the firm performance.

2.7 Leverage

Leverage has been widely used as a control variable by a number of empirical studies (such as Kyereboah-Coleman, Biekpe, 2006; Alsaeed, 2006) that have examined the relationship between corporate governance and financial performance of the company. In their attempt to justify taking the leverage as a control variable, these studies have revealed that the debt has an effect on the financial performance of the company. As suggested by Alsaeed (2006), the firm leverage was measured by dividing total of liabilities by the total of assets.

In the light of the above discussion, Table 1 summarizes the operational definitions of the variables used in this study following the common literature.

Table 1: Research Variables

Variables	Acronym	Operationalization
Return On Assets ratio	ROA	Earnings before tax divided by total assets of the company.
CEO Duality (0/1)	CEODUATY	Dummy variable equal to "1" if the CEO is also the chair of the board, and "0" otherwise
CEO Tenure (year)	CEOTENUR	The period of CEO's serving in the company
Audit Committee Size (number)	AUDITSIZ	Number of members serving on the audit committee
Board Size (number)	BOADSIZE	Total number of directors serving on the board of directors
Board Composition (%)	BOADCOM	The ratio of independence directors to the total number of directors
Firm Size (number)	FIRMSIZE	The natural log of total assets
Leverage (%)	LEVERAGE	The ratio of total liabilities to total assets

3. Methodology

3.1 Research Design

To achieve the objectives of this study, the correlation study research design was used to investigate the relationships between COE duality, CEO tenure, audit committee size, board size and board composition as independent variables and firm performance (ROA) as the dependent variable.

3.2 Data Collection

The scope of this study was the companies listed in the Kuwait stock exchange as in 2009. The total number of companies listed on the Kuwait stock exchange are 228. All of them are categorized into groups similar to how they were on the Stock Exchange. The population of the study comprises non-financial firms listed on the Kuwait stock exchange (www.kuwaitse.com/portal/a/stock/companies.aspx). According to the above body, there are 136 non-financial companies included on the main board and secondary board as of 20th September 2009. The banks and financial institutions have not been included in this study due to the differences in the regulatory requirements and the characteristics of the financial reports from those of the non-financial firms (Alsaed, 2006).

Therefore, the data required for the study was collected from 136 non-financial firms. As mentioned before, the choice for the year 2009 is opted due to the fact that 2009 is the most advanced source of information at the initiation of the study.

3.3 Data Collection Procedures

The secondary data provides a reliable source of the information needed by researchers to investigate the phenomenon and seek efficient ways for problem solving situations (Sekaran, 2003). The data required for this study was collected from the annual reports of the companies that listed in the official trading market stock website as known Kuwait stock exchange (www.kuwaitse.com/portal/a/stock/companies.aspx) as in the end of 2009. Specifically, they were collected from the annual reports particularly from the portion expounding on corporate information and statement of corporate governance as well as from the director's profile. Regarding the data related to the firm performance, they were collected business statements like balance sheet, income statement, and cash flow statement provided in the annual reports.

Secondary data were collected owing to the ease of availability and for the purpose of answering the research question; the entire data needed were taken from the annual reports of the companies listed on the Kuwait Stock Exchange. The researcher made use of the internet Netscape Navigator to assist in carrying out the present study and to look through the companies' websites and home pages for their total assets and their profitability.

3.4 Model Specification and Multiple Regressions

Based on the hypothesis development procedures, The following regression equation was meant to be estimated:

$$FIRMPFR = \beta_0 + \beta_1 * CEODUATY + \beta_2 * CEOTENUR + \beta_3 * AUDITSIZ + \beta_4 * BOADSIZE + \beta_5 * BOADCOM + \beta_6 * FIRMSIZE + \beta_7 * LEVERAGE + \varepsilon$$

Where:

FIRMPFR – Firm Performance

β_0 – Constant

CEODUATY– CEO duality

CEOTENUR –CEO tenure

AUDITSIZ – audit committee size

BOADSIZE –board size

BOADCOM – board composition

FIRMSIZE – Firm Size

LEVERAGE – Leverage

ε - Error term

4. Data Analysis and Results

4.1 Descriptive Statistics

Before undertaking the hypothesis testing procedures, an initial summary of the variables was generated as illustrated in Table 2.

Table 2:

Summary of Descriptive Statistics

Variables	N	Mean	Std. Deviation	Minimum	Maximum
CEODUATY	136	0.566	0.497	0.000	1.000
CEOTENUR	136	7.000	2.831	2.000	15.000
AUDITSIZ	136	2.757	1.220	0.000	5.000
BOADSIZE	136	6.162	1.516	3.000	11.000
BOADCOM	136	74.116	11.873	33.330	100.000
FIRMSIZE	136	5.007	0.609	3.950	6.780
LEVERAGE	136	40.536	21.988	1.480	83.760
ROA	136	1.037	8.714	-26.730	19.920

The Table 2 above displays the descriptive statistics of the variables of the study showing the mean, standard deviation, minimum and maximum. The summary reveals that the CEO serves as chairman of the board for 15% of the sample. In other words, the duality of CEO in the sample is considered as low as evidenced by the agency theory which states the importance of the separation of the role of CEO and chair of the board. The mean of the CEO tenure is 7 years with a minimum of 2 and maximum of 15. The mean of the size of the audit committee is 2.8; this is in line with requirement in the MCCG Code which is at least 3 members.

The descriptive statistics also revealed that the mean board size is about 6, which shows that consumer product sector firms in Kuwait possess a relatively moderate board size, having a maximum of 11 members. This means that the board sizes are appropriate for firm's optimum performance as evidenced by Jensen (1993) and Lipton and Lorsch (1992) who stated that the bigger the board size, the less effective it would mean for the firm performance. These figures, however, consistent with those found by Shakir (2008) and Mak&Li (2001). It can be noticed that the mean of the percentage of independent directors on the board is 74.13, higher than what is necessary in the stock market which states that 33.33 % of independent directors should comprise a full board.

In addition to that, the mean of the firm size is 5.007 while the maximum and minimum are 6.7800 and 3.9500 respectively with standard deviation of 0.609. Similarly, the mean of the leverage is 40.536% while the maximum and minimum are 83.76 and 1.48 respectively with standard deviation of 21.988.

It is clear that based on the ROA, there is a wide deviation between firms. Showing a mean performance of 1.037%, the minimum reported performance over the period is -26.73%, while the maximum ROA is 19.92% with standard deviation of 8.714 between firms.

4.2 Correlation Analysis

Correlation analysis is the statistical tool that can be utilized to determine the level of association between two variables (Levin & Rubin, 1998). This analysis can be seen as the initial step in statistical modelling to determine the relationship between the dependent and independent variables. Prior to carrying out a multiple regression analysis, a correlation matrix was developed to analyze the relationships between the independent variables as this would assist in developing a prediction multiple model which will reveal no relationship in cases where the value of the correlation is 0. On the other hand, a correlation of ± 1.0 means there is a perfect positive or negative relationship (Hair et al., 2010). The values are interpreted between 0 (no relationship) and 1 (perfect relationship). Also, the relationship is considered small when $r = \pm 0.1$ to ± 0.29 , while the relationship is considered medium when $r = \pm 0.30$ to ± 0.49 , and when r is ± 0.50 and above, the relationship can be considered strong. Table 3 below reveals the correlation between CEO duality, CEO tenure, audit committee size, board size, board composition, firm size and leverage with firm performance (ROA).

Table 3: Correlations of the Variables

Variables	1	2	3	4	5	6	7	8
CEODUATY (1)		0.095	-0.382**	-0.368**	-0.558**	0.005	-0.056	0.093
CEOTENUR (2)			-0.013	0.029	-0.002	0.041	0.031	-0.615**
AUDITSIZ (3)				0.794**	0.520**	0.227**	0.122	0.09
BOARDSIZE (4)					0.449**	0.331**	0.174*	-0.028
BOADCOM (5)						0.142	0.073	-0.097
FIRMSIZE (6)							0.467**	-0.042
LEVERAGE (7)								-0.156
ROA (8)								

**: $p < 0.01$;

*: $p < 0.05$

Table 3 displays the correlations between the governance variables and control variables with firm performance. These findings show that CEO duality positively correlated ($r = 0.093$, $p > 0.05$) with ROA but not significant at the 0.05 level of significance. However, there is a negative correlation between CEO tenure ($r = -0.615$, $p < 0.01$) with ROA at the 0.01 level of significance.

In addition to that, the correlation between audit committee size and ROA was positive but not significant at the 0.05 level of significance ($r = 0.090$, $p > 0.05$). Moreover, board size, board composition, firm size and leverage have negative but insignificant relationships with

the ROA at the 0.05 level of significance with coefficients ($r=-0.028$, $p>0.05$), ($r=-0.097$, $p>0.05$), ($r=-0.042$, $p>0.05$) and ($r=-0.156$, $p>0.05$) respectively.

In sum, as evidenced by the above, it can be seen that two variables have a positive correlation with ROA, namely CEO duality, audit committee size. By contrast, five variables have a negative correlation with ROA, namely CEO tenure, board size, board composition, firm size and leverage.

4.3 Hypotheses Testing Procedures

Multiple regression analysis is a statistical method utilized to determine the relationship between one dependent variable and one or more independent variables (Hair et al., 2010). Before undertaking the regression analysis, this study examined whether the regression assumption were fulfilled.

4.3.1 Testing the Assumptions of Multiple Linear Regressions

Prior to carrying out a multiple regression analysis, it is important to note that there are some general assumptions required for this analysis. These assumptions related to the residual terms that have to be independent and identically normally distributed with a uniform variance.

First, the normality of the variables was examined using the skewness and kurtosis. According to Kline (2011), the univariate normality of the variables can be assumed if the skewness statistic is within the interval (-3.0, 3.0) and the kurtosis statistic lying in the interval (-10.0, 10.0). Table 4 showed that the variables have no substantial deviation from being normally distributed.

Table 4: Normality Tests

Variables	N	Skewness		Kurtosis	
		statistic	Std.Error	Statistic	Std.Error
CEODUATY	136	-0.27	0.208	-1.956	0.413
CEOTENUR	136	0.671	0.209	-0.429	0.414
AUDITSIZ	136	-0.665	0.208	0.389	0.413
BOADSIZE	136	0.368	0.208	0.252	0.413
BOADCOM	136	-0.697	0.208	0.352	0.413
FIRMSIZE	136	0.681	0.208	0.565	0.413
LEVERAGE	136	0.059	0.208	-0.883	0.413
ROA	136	-0.677	0.208	0.53	0.413

In examining the regression assumptions, a histogram chart plotting the distribution of the residuals was carried out through the utilization of SPSS software program. Besides, the scatter plot of the predicted values and the residuals show a scattered point with no trend indicating that the error terms are independent and approximately normally distributed with

uniform variance.

Table 4 shows that the values of skewness are located in the range between -3 and +3. On the other hand, the values of kurtosis lie between ± 10 including ownership. Therefore, all the variables of the study can be described to have been approximately distributed (Kline, 2011).

4.3.2 Multicollinearity Test

The issue of multicollinearity may arise if two or more variables are highly correlated. It may affect the estimation of the regression parameters (Hair et al., 2010). It can be detected either by examining the correlation matrix or by the variance inflated factor (VIF). The most common multicollinearity detection test is the Variance Inflation Factor (VIF) for each independent variable (Naser et al., 2002).

If the (VIF) is more than 10 for any independent variable, it indicates that this variable is highly explained by other variables and might be considered for exclusion from the model (Silver, 1997). For this study, the VIF for all the independent variables was reported as reported in Table 5. However, the VIF for all the independent variables was far lower than the cut off value of 10 as suggested by (Hair et al., 2010) and thus confirming the absence of the multicollinearity issue.

Table 5: Variance Inflation Factor

Variable	VIF
CEODUATY	1.549
CEOTENUR	1.020
AUDITSIZ	2.986
BOADSIZE	2.968
BOADCOM	1.737
FIRMSIZE	1.441
LEVERAGE	1.289

4.3.3 Multiple Linear Regression Analysis

To test the hypotheses of the study, the multiple linear regression analysis was employed using the firm's financial performance (ROA) as dependent variables and independent variables comprising of CEO duality, CEO tenure, audit committee size, board size and board composition as independent variables. The firm size and leverage were also used as control variables.

The results of the regression analysis were presented in Table 6. Based on the regression results, the model is valid meaning that at least one of the variables is a significant determinant of the firm performance (F value= 15.403, $p < 0.001$). In addition, the variables included in the model were able to explain 43 % of the variance in the ROA as shown by the adjusted by R^2 indicator. These results also indicate that 57 % of the variance in the ROA might be explained by other factors which were not included in the model.

Table 6:

The Coefficients of Multiple Regression Analysis

Variable	Coefficients		Std. Error	T Value	Sig.
	Unstandardized	Standardized			
(Constant)	16.816		6.420	2.619	0.010
CEODUATY	2.836	0.164**	1.406	2.018	0.046
CEOTENUR	-1.884	-0.620***	0.200	-9.413	0.000
AUDITSIZ	2.200	0.312***	0.795	2.769	0.006
BOADSIZE	-0.822	-0.145	0.636	-1.293	0.198
BOADCOM	-0.084	-0.116	0.062	-1.349	0.180
FIRMSIZE	0.604	0.043	1.103	0.547	0.585
LEVERAGE	-0.052	-0.133*	0.029	-1.801	0.074
F value					15.403
F significance					0.000
R ²					0.459
Adjusted R ²					0.429

***:p<0.01; **:p<0.05; *:p<0.1

Based on the results in Table 6, CEO duality was found to have a positive significant effect on the ROA at the 0.05 level of significance ($\beta = 0.164$, $t = 2.018$, $p < 0.05$).

Similarly, the CEO tenure was found to have a negative significant impact on the firm performance ($\beta = -0.620$, $t = -9.413$, $p < 0.001$) at the 0.001 level of significance. This implies that if the CEO tenure increases by one year, the firm performance will decrease by about -1.884. Following the same reasoning, the audit committee size was a positive significant predictor of the firm performance at the 0.01 level of significance ($\beta = 0.312$, $t = 2.769$, $p < 0.01$). This means that if the audit committee size increases by one member then the firm performance (ROA) will increase by about 2.200.

On the other hand, the board size and the board composition were found to be negative and insignificant determinants of the firm performance at the 0.05 level of significance with coefficients ($\beta = -0.145$, $t = -1.293$, $p > 0.1$) and ($\beta = -0.116$, $t = -1.349$, $p > 0.1$) respectively. While the firm size was not a significant predictor of the firm performance ($\beta = 0.043$, $t = 0.547$, $p > 0.1$), the leverage was found to be a negative and significant predictor of the firm performance at the 0.1 level of significance ($\beta = -0.133$, $t = -1.801$, $p < 0.1$).

According to the regression results obtained, the firm performance can be predicted by the following regression equation:

$$FIRMPFR(ROA) = 16.816 + 2.836 * CEODUATY - 1.884 * CEOTENUR + 2.200 * AUDITSIZ - 0.052 * LEVERAGE$$

5. Discussion and Conclusion

The main objective of this study was to examine the relationship between board characteristics (CEO duality, COE tenure, audit committee size, board size and board composition) and firm performance in the Kuwait listed non-financial firms for the year 2009 and the firm performance (ROA). It should be noted that banks, as well as other financial institutions are excluded from the sample of the study. With regards to the examination of the impact of board characteristics (CEO duality, CEO tenure, audit committee size, board size and board composition) of the Kuwaiti non-financial firms listed on the Kuwaiti Stock Exchange, upon the firm performance (ROA), the multiple linear regression analysis was utilized.

The regression analysis results regarding the relationships between the corporate governance variables, control variables and the ROA displayed in Table 6. More specifically, CEO duality was found to have a positive significant effect on ROA, the firm performance, at the 0.05 level of significance ($\beta=0.164$, t value=2.018, $p<0.05$). This finding supports the first hypothesis (H_1) that there is a relationship between CEO duality and firm performance. This positive sign indicates that the performance of a particular firm increases when the chairman of the board is holding the CEO position. This result is in line with those found by Bhagat & Black (2002), Yermack (1996) who investigated the relationship between CEO duality and firm performance of U.S and Pakistan respectively. They find that there is a positive association between CEO duality and firm performance. The result supports the stewardship theory which states that whenever the CEO also acts as the chairman, the performance of the company increases due to the fact that the owner of the company is relatively familiar and more desirous of raising capital (Williamson, 1985).

Moreover, the statistical results in Table 6 provide a support for the hypothesis (H_2) regarding the relationship between CEO tenure and firm performance. It is shown that the CEO tenure has a significant negative impact on ROA at the 0.01 of significance ($\beta=-0.620$, t value=-9.413, $p<0.01$). This result indicates that the longer period the CEO spends in his position, the more decreasing the firm performance is. Moreover, this negative effect is found to be very strong as $\beta= -0.620$. This result is similar to that found by Kyereboah-Coleman (2007) and Bertsch & Mann (2005) who investigated the relationship between CEO tenure and firm performance of Ghana and U.S respectively and found a negative association between CEO tenure and firm performance.

In addition to that, the results in Table 6 showed that the audit committee size has a positive significant impact on the ROA at the 0.01 level of significance ($\beta=0.312$, t value=2.769, $p<0.01$). That is the third hypothesis of this study (H_3) regarding the relationship between audit committee size and firm performance was supported. This finding implies that the higher audit committee size in number, the higher the firm performance measured by ROA is. This

finding is similar to that found by Mallin (2007) among the U.S. companies and Kyereboah-Coleman (2007) and Kajol & Sunday (2008) among Nigerian companies.

The results with regards to the effect of board size on firm performance was found to be a negative but not significant ($\beta = -0.145$, t value $= -1.293$, $p > 0.1$) indicating that the hypothesis (H_4) regarding this relationship was not supported. This negative value indicates that the increase in board size causes the decrease of firm performance measured by ROA. Some other previous studies such as those conducted by Lipton and Lorsch (1992), Haniffa & Hudaib (2006), Yermack (1996), Vafeas (2000) and Mak & Li (2001) found that board size is negatively related to the firm performance when investigated this relationship in the American and Malaysian firms.

The results pertaining to the effect of the board composition on the ROA showed that it is negative insignificant ($\beta = -0.116$, t value $= -1.346$, $p > 0.1$). This result shows that the hypothesis (H_5) postulating this relationship was not supported. The negative value indicates that the higher the value of the board composition, the lower is the firm performance (ROA). The negative relationship between board composition and firm performance has been confirmed by some previous studies such as those conducted by Haniffa & Hudaib (2006) in Malaysia, Mac Avoy, Dana, Cantor & Peck (1983) in Singapore and Klein (1998) in the United States.

With regards to the company size and leverage, the results obtained showed that while leverage was found to have a negative and significant effect on ROA, firm size was found to have positive but not significant effect on ROA. In more details, the results in Table 6 showed that the size of the company found to positively but insignificantly affect the firm performance (ROA) ($\beta = 0.043$, t value $= 0.547$, $p > 0.1$). The positive sign indicates that the larger the firm in size, the higher its performance is. In a previous study, Klapper and Love (2003) found that the size of the firm significantly and positively affects its performance. This might be so since when the firm is large, it is more likely to have broader activities, production range, value creation sources and influence on the market (Bohren, 2005). Finally, the results also showed that the debt ratio of a firm has a negative significant impact on the firm performance of Kuwaiti companies as measured by ROA ($\beta = -0.133$, t value $= -1.801$, $p < 0.01$). This finding supported the hypothesis regarding this relationship indicating that if the increase in the firm's leverage will cause a decrease in the firm performance. In other words, the results show that the higher the debt ratio, the lower ROA. This conclusion is in line with that reported by Bohren (2005), but contrasts with that reported by Coleman and Biekpe (2006). This can be explained by the fact that the Kuwaiti financial market is even less effective and may not provide the official position based on the assumption of free cash flow. A further possible explanation is that firms face high debt to increase the cost of operations, as they try to fulfil their obligations to pay interest rates higher. Table 7 summarizes the results regarding the hypotheses of the study.

Table 7:

Summary of the Hypothesis Results

Hypothesis	Relationship	Results	Decision
H1	CEO duality and ROA	Positive Significant	and Supported
H2	CEO tenure and ROA	Negative Significant	and Supported
H3	Audit committee size and ROA	Positive Significant	and Supported
H4	Board size and ROA	Negative Insignificant	and Not Supported
H5	Board composition and ROA	Negative Insignificant	and Not Supported

6. Contributions of Study

This study is one of the very few studies conducted to examine the effectiveness of corporate governance mechanisms on the Gulf countries. Specifically, the value of this study comes from its focus on the companies listed on the Kuwait Stock Exchange to investigate the relationship between corporate governance (board characteristics) and firm performance. This study, apart from being the few studies in the developing countries with unique business environment, it provides the business owners as well as investors some insights into how the performance can be dependent on the corporate governance implemented mechanisms. In general, this study provides academics and practitioners with a clear view about the relationship between board characteristics and firm performances in Kuwait.

7. Limitation of the Study

As with other studies, there are several limitations faced this study based on which the findings of the study are to be explained. The first limitation is related to the research design utilized as the study solely considered companies listed on the Kuwait stock exchange with particular emphasis on the non-financial companies and hence, overlooking financial as well as non-listed companies. It comes to reasoning that the validation of the outcome might not hold true for financial companies and other non-listed companies and hence, making generalization to all sectors impossible.

The second limitation arranges the sole examination of general suspects who leads to the determination of board effectiveness such as CEO duality, CEO tenure, audit committee size, board size and board composition and their link to firm performance without examining other corporate governance features such as ownership structures, board and audit committee process and auditor quality. The limitations of this study come from the nature of data collected due to the limitations of annual reports, disclosure that were available in Kuwait as compared with the other developed countries.

8. Future Research Directions

Due to the earlier discussed limitations, future research could follow various avenues of research to better explain the corporate governance and firm performance relationship. First, future research could attempt to explore the nature of these relationships in financial

companies and unlisted companies as well employing different methods and employing the data for longer periods to explore the long term behavior of such relationships.

Second, further studies on the subject can also be extended to include various aspects of BOD characteristics and explore board processes such as remuneration and nominating committees, board of director's frequency meeting and experience on board of directors.

Third, for the sake of generalizability, future research might intensively investigate these relationships in different countries to examine to what extent they might be affected by the differences in business environments, cultures, level of education, etc.

Fourth, the bulk of the literature has focused on the examination of direct relationship between corporate governance factors and firm performance. Therefore, in order to build a model that can comprehensively explain the firm performance, future research should investigate the effect of some suggested moderating variables such as CEO compensation, board size, the culture, accounting as well as legal experience, board commitment, and having foreign members in the board of directors.

Fifth, in measuring the firm performance, future research should consider the combination of other measurements of performance such as Tobin's Q, operating cash flow (OCF), DY, COC, return on equity (ROE) and profit margin (PM). This study has focused on the accounting based measures of the firm performance measure only. Future research regarding the firm performance should try to use accounting and the marketing based measures to account for the past as well as the future potential performance.

Sixth, future studies should attempt to investigate the integrated effect of internal and external corporate governance factors on the firms' performance to clarify the potential causes of enhanced performance to attract more capital and generate wealth. Moreover, the effect of the ownership structure with board structure on the firm performance should be considered in the future research.

Seventh, to better explain the determinants of the firm performance, future researcher should consider some committees under board structure such as the risk committee, the credit committee, the remuneration committee and other. More importantly, the role of internal audit, the role of the secretary and the importance of the board change could be seen as important variables in explaining the firm performance.

Last but not least, despite the fact that the role of the developing countries in forming the global economy has been growing impressively, a little attention has been paid by the researchers to examine the effectiveness of corporate governance mechanism for firms' performance. In other words, the focus of the researchers was heavily practiced in the developed countries and there are limited studies conducted, in this regard, in the developing countries. The importance of the Gulf region has been acknowledged globally due to its oil production and reserves. As a result, this region has been the destination of huge FDI inflows in oil-related industries and other sectors as well. It is widely acknowledged that the effective corporate governance mechanisms in the Gulf companies help firms as well as investors to confidently set up partnership to enhance business performance. Therefore, there should an increasing attention to examine the relationship between corporate governance and firm performance in the Gulf countries.

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