

THE IMPACT OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE: EVIDENCE FROM BAHRAIN STOCK EXCHANGE

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ABSTRACT: *Corporate governance is recognized as one of the most important implications to build a marketplace confidence and to attract positive investors in the organization specifically and the economy generally. Promoting good corporate governance standards considered to be very important in attracting investment capital, reducing risk and developing firms' performance. The aim of this research was to examine the impact of corporate governance characteristics on firm performance in Bahrain Stock Exchange. Previous literature reviews presented in the study found that corporate governance are successful in improving firm's performance. The study sample contained 42 Out of 48 Bahrain's financial companies which are listed in Bahrain Stock Exchange during the period 2007-2011. The descriptive results indicated that our sample firms fulfill corporate governance variables about 61.2% for the entire period in the study. The empirical results indicate that performance measures such as Return on Assets and Return on Equity are significantly related to corporate governance in Bahrain. However, Earning Per share performance measure is not showing any significance impact related to corporate governance. Overall, this study found a positive influence of corporate governance mechanisms on performance for the entire firm in Bahrain Stock Exchange. Thus, it is recommended that further research be undertaken from different aspects: The effect of corporate governance variables and their impact on firm's performance in the Gulf Cooperation Council (GCC) and the effect of Global Corporate Governance on performance during the current Global Financial Crisis.*

KEYWORDS: Corporate Governance, Firm Performance, Bahrain Stock Exchange (BSE)

INTRODUCTION

Many researchers have been carried out their studies to identify corporate governance, focus on what are its characteristics and how these characteristics impact the performance of the entire firm. Studies found many answers related to researchers queries via providing a clear definition of good corporate governance and their ethics and procedures used in order to perform, manage and monitor a business. The majority of these studies were to examine the relation among corporate governance mechanisms and performance measures.

After the collapse of Enron and the corporate scandals that started in October 2001 till present day, the confidence of the shareholders begins to shake in the marketplace. Thus, several investors, board of directors and government regulators have encouraged businesses to emphasis on corporate governance from different sides such as accounting and finance, economies, law and management. Furthermore, countries and economies differ regarding on what governance mechanisms are used. For instance, the majority of Taiwan businesses are family ownership, whereas in Angelo American economy; equity market is the most popular

one. However, the most important aspect to structure the firm appropriately whether it's in Asia, Europe or USA is to implement the right governance mechanisms in order to help businesses in the process of decision making. There is yet no universally definition of corporate governance. Nevertheless, the most definition of corporate governance which is broadly used is "the system by which companies are directed and controlled" (Cadbury Committee, 1992).

There are few studies which examine the effect of corporate governance on performance measures on the GCC business environment and this study may be the first one to do so in Bahrain. Bahrain is one of the fastest growing economies globally and its government is keen to support good corporate governance mechanisms to increase investor confidence and encourage market improvement.

This study provides empirical evidence from Bahrain on the impact of corporate governance on company's performance measures .Bahrain considers one of most unique and attractive marketplace in the region as it provides great opportunities for more investment flows. This research is a contribution to previous studies to investigate the effect of corporate governance practices among performance measures for the entire firm as well as propose the proper organizational structure. Also the study is conducted to differentiate between good and bad governed firms in order to build a marketplace confidence and to attract positive investors in the organization. The main objectives in this study are presented as follows:

- Determine a line to distinguish between good and bad corporate governance;
- Demonstrate the effect of corporate governance practices on firm's performance in the financial sector;
- Increase the awareness on agency theory and its relative costs; and
- Illustrate the Bahraini market generally and the Bahrain Stock Exchange specifically.

LITERATURE REVIEW AND PREVIOUS STUDIES

The impact of corporate governance variables on firm performance has been investigated in many studies around the world. This part will review some of these studies that are related to our study in somehow from different countries.

Sayla Siddiqui (2014) investigated the effect of corporate governance characteristics on firm performance based on 25 previous researches. The study consists of three particular concerns namely the effects of (1) legal organisms, (2) governance structures and (3) accounting or market performance measures. Findings indicate that the value of the market of business performance measured by Tobin's Q in the marketplace and finally the study found that market to book ratio is the fundamental value of this relation.

Pooja Gupta and Aarti Mehta Sharma (2014) examined 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.

Another study was conducted by S.Danoshana and T.Ravivathani (2014) to explore the effect of corporate governance on business performance of 25 listed financial institutions in Sri Lanka for during the period 2008-2012. Return on equity and Return on assets were used in the study as they are the key variables to define business performance. Analysis findings show that

corporate governance variables are significantly effect on business's performance and board of directors size and audit committee size have effect positively 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 to examine the relation among National Culture, Corporate Governance Practices, and firm performance. By using a new database from Governance Metrics International measures of corporate governance practices across large number of countries for the sample period of 2006-2011, they found that according to the stock market-based, financial system of a country is has a negative impact with transparent disclosure and minority shareholder protection.

Onakoya, Adegbemi 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 is found that both of board size and ownership structure are positively impacted on return on equity. Nevertheless, the study found that corporate governance practices is negatively associated with companies' assets. In addition, Results show that there is no effect of board structure since it considers as a profitability measures predictor.

Jackie Krafft, YipingQu, Francesco Quatraro, and Jacques-Laurent Ravix (2013) investigated the relationship of corporate governance among value and firm's performance. The analysis concentrates on mergers, investigates the system of how non US corporations are adopting the US best practice with its propositions. Based on the empirical analysis of the study, it is found that many that corporations are significantly adopting US corporations' best practice associated to corporate governance.

Guo and Kumara (2012) carried out a research to test the effect of corporate governance measures on firm performance in Sri Lanka. The study sample consists of listed firms from Colombo stock exchange. Findings 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 with a sample period of ten years (2001-2010). The analysis found that corporate governance is significantly associated with banks performance. Moreover, it indicates the definition of poor asset quality and loan deposit ratios were found to have a negative impact on business performance.

Sami et al. (2011) conducted a study to demonstrate the link between among 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 with a sample collected from 2007 fiscal year annual reports of those firms. Findings indicate that CEO duality is negatively associated with performance measures namely ROE and ROA. This appears because CEO duality is found to reduce the board of directors' efficiency. Besides, the relationship among the independent of board of directors, size of the board of directors and ownership structure and firm performance is found to be insignificant.

Ehikioya (2009) found to have insignificant influence between CEO duality and firm performance, whereas positive association among ownership structure and performance. Regarding the link between board composition and firm performance, the study was unsuccessful to present evidence related to this relationship. However, the researcher recommended that whenever the board consists of more than one of family members, performance will be affected negatively.

Lam & Lee (2008) recommended that both of 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 resources of data, second section will be study models and the last one will be measuring of variables and statistical tools.

Study sample and resources of data

Several sources have been used in this study for data analysis. The information needed about firm's performance and corporate governance characteristics are collected from the Bahrain Stock Exchange database (BSE) 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 emerged with any other company during the study period.

There are two Close companies during the study period and four non- Bahraini companies which excluded from the sample. Therefore; the final sample consists of 42 companies, representing 87.5% of the original sample.

Data was obtained from Bahrain Stock exchange data base. The study sample contained 42 Out of 48 Bahrain's financial companies which are listed in Bahrain Stock Exchange during the period 2007-2011. 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 from academic literature review has sought to confirm the impact of corporate governance practices on firm's performance. A literature review from relevant academic studies has pointed out the following characteristics applied to corporate governance such as:

Brown and Caylor (2004) conducted a study on a total of 2327 US data firms with a database collected from the Institutional Shareholder Service (ISS), examined 51 factors along with 8 categories. Results found that good governed firms are more profitable and more valuable comparing to other firms. Furthermore, Black (2001) claims that greater impact of corporate governance mechanisms are most probably found in developed countries. This could be explained as those countries were found to have weak regulations and superior differences among firms in corporate governance mechanisms.

Based on what was mentioned in the previous arguments from different studies, the first hypothesis may be formed as follows:

H₀₁: There is no significant difference between the Bahraini public shareholding firms in the application of the characteristics of corporate governance.

H_{a1}: There is significant difference between the Bahraini public shareholding firms in the application of the characteristics of corporate governance.

Many previous studies have provided evidences on linking good corporate governance with better firm's performance. This means that corporate governance improves company performance (Hossain, Cahan and Adams, 2000). On the other hand, other researchers have demonstrated negative impact of corporate governance on firm performance (Hutchinson, 2002). Nevertheless, some researchers have found insignificant relation between good corporate governance and firm performance (Young, 2003).

Thus, the second main hypothesis may be formed as follows:

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

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

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

Financial Performance

Effective corporate governance practices are successful to gain profits, whereas the organization with weak governance practices get less financial benefits. Organizations having poor governance structures delivered less value to investors, conversely firms with efficient governance procedures gave much (Nandelstadh and Rosenberg, 2003). Thus, the first sub hypothesis may be formed as follows:

H_{02.1}: There is no significant impact of corporate governance on financial performance in Bahrain Stock Exchange.

H_{a2.1}: There is significant impact of corporate governance on financial performance in Bahrain Stock Exchange.

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. Thus, the second sub hypothesis may be formed as follows:

H_{02.2}: There is no significant impact of corporate governance on operational performance in Bahrain Stock Exchange.

H_{a2.2}: There is significant impact of corporate governance on operational performance in Bahrain Stock Exchange.

Stock Performance

Gompers et al. (2003) pointed out that during 1990s stock returns of organizations, where rights of shareholders were protected more efficiently had outperformed the corporations with less protection of rights of investors approximately by 8.5% per year during this decade.

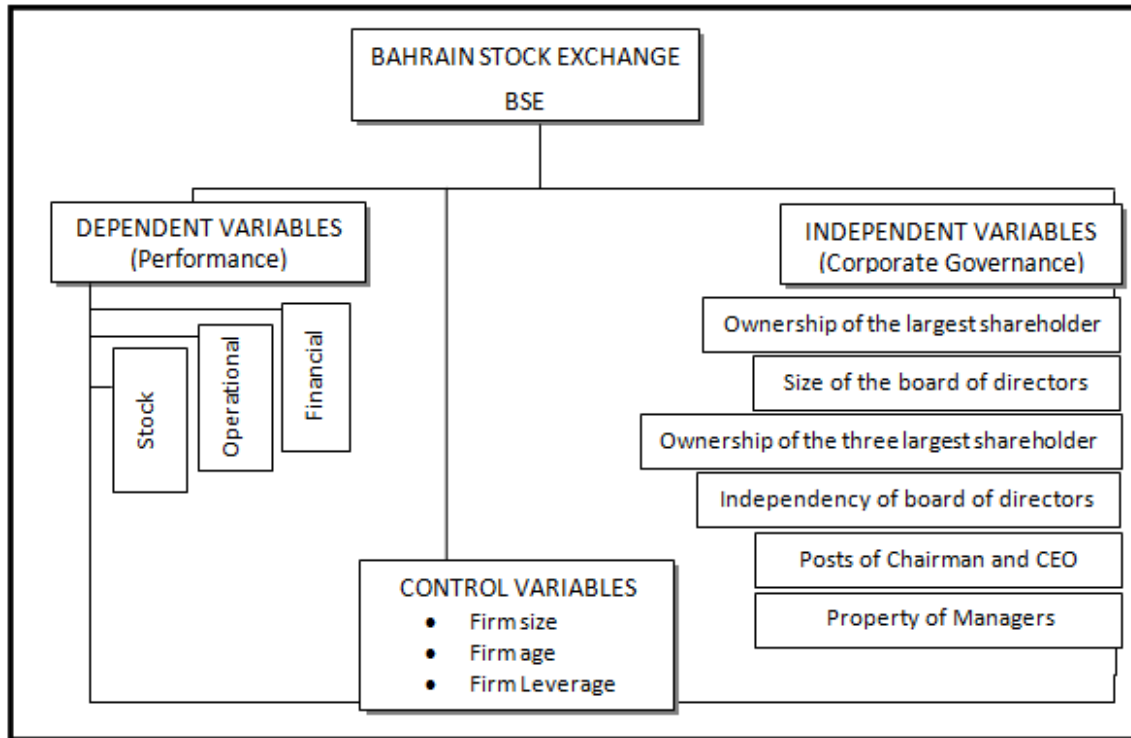
Thus, the third sub hypothesis may be formed as follows:

H_{02.3}: There is no significant impact of corporate governance on stock performance in Bahrain Stock Exchange.

H_{a2.3}: There is significant impact of corporate governance on stock performance in Bahrain Stock Exchange.

Study Models

This research tries 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 researches are significantly positive and in this study, a research framework is presented in graph 1.

Graph 1: Theoretical Framework model

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

$$Perf_i = \beta_0 + \beta_1 OLSH_i + \beta_2 SBoard_i + \beta_3 OThLSH_i + \beta_4 IndepB_i + \beta_5 ChCSEO_i + \beta_6 PManager_i + \beta_7 Size_i + \beta_8 Leverage_i + \sum_{k=1}^{net} \beta_k Sector_{i,k} + \varepsilon_{i,\dots}$$

Where:

- **Perfi:** is a continuous variable; the dependent variable is the ratio of the number of shares, held by institutional investors to the total number of shares outstanding, for the company (i).
- **β_0 :** is the constant.
- **$\beta_{1..8}$:** is the slope of the independent and controls variables.
- **OLSHi:** is dummy variable, coded 0 if a shareholder owned more than 20% and 1 otherwise, for the company (i).
- **SBoardi:** is dummy variable, coded 0 if the board of directors' members is not between 7-13 members and 1 otherwise, for the company (i).
- **OThLSHi:** is dummy variable, coded 0 if the ownership of the three largest shareholders more than 50% and 1 otherwise, for the company (i).
- **IndepBi:** is dummy variable, coded 0 if the board of directors is not controlled by more than 50% independent outside directors and 1 otherwise, for the company (i).

- **ChCSEO_i**: is dummy variable, coded 0 if the chairman is also the CEO and 1 otherwise, for the company (i).
- **PManager_i**: is dummy variable, coded 0 if the property of managers in the company's shares not between 1-20% and 1 otherwise, for the company (i).
- **CSize_i**: is a continuous variable: the company size, for the company (i).
- **Leverage_i**: is a continuous variable: Financial Leverage is the ratio of total debt to the book value of total assets, for the company (i).
- **Sector_{i,k}**: is a continuous variable: the Type sector in which the company (i) belongs to, and it is divided into seven 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 board of directors members are not between 7-13 member 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 chairman 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 looked at, namely return on equity, return on assets and earnings per share. Various empirical studies use financial measures to test the relation between corporate governance and firm performance and those measures fit into accounting measures as well as market measures (Kiel & Nicholson 2003). Accounting measures such as return on assets (Kiel & Nicholson 2003) and return on equity (Baysinger & Butler 1985) are the most common used in prior corporate governance studies.

Financial Performance

Return on equity has been considered as one of the most significant and commonly used profitability financial ratios. Many researchers have employed ROE as firm performance measure in their studies. ROE is an important indicator because it tells us 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

Return on assets was selected in our study because of its relative use in previous studies work in determining how profitable a firm is. A study which was conducted by Coleman (2008), to determine the effect of corporate governance on African firm performance; return on assets was also employed to explore how profitable a firm was.

Stock Performance

Earning per share EPS is a profit attributable to equity shareholders divided by number of ordinary shares. Most commonly used to evaluate a firm's performance and it EPS measures performance from an investors' point of view. Gompers et al. (2003) explore that around 85-90 % of the related accounting data measured in terms of net profit and earning per share.

Moreover, EPS demonstrate the total of available earnings by each ordinary shareholder, thus, it shows the potential return on individual funds via comparing the EPS of different or same entity's in different periods or both for better figures.

Independent variable

The independent variables consist of six corporate governance variables as we mentioned earlier such as: 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 and Property of managers.

Control variable

As we mentioned earlier in this chapter, three control variables will be discussed for all estimated models of our research. 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 our study. Firm Size can be calculated if we take the natural log of total assets. In the case of return on assets is the dependent variable, hence, 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. Essentially, firm leverage consists of shareholders borrowing money for securities investment. Weill (2003) investigated "the relationship between leverage and corporate performance". Findings indicated that results were mixed since Italian firms found to have negative relationship whereas positive relationship in French and German firms.

Firm Age

Firm age is the total number of years from which a firm is starting their operations. Sami et al. (2011) indicated that both of the financial growth as well as the capital structure of firms are impacted with age factor. Furthermore, at the starting point of any business, firms are expected to have more expenses as they have less experience in the market. As a result, total cost structure of new firms is higher than old firms.

DATA ANALYSIS AND TESTING OF HYPOTHESIS

Descriptive Analysis

The number of initial populations for the firms being researched is 48. Samples are chosen based on panel data to the 42 listed companies from Bahrain Stock exchange data base over the year 2007 to 2011 excluding of 2 closed companies and 4 non-Bahraini firms.

Based on the samples of 42 chosen firms, we will measure the corporate governance characteristics 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). Table (3-7) contains data of descriptive statistics on governance characteristics for our study sample of firms over the period of 2007-2011 respectively.

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.	ChCSE	29	69	13	31
Property of managers.	PManag er	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.	ChCSE	28	66.7	14	33.3
Property of managers.	PManag er	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.	ChCSE	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.	ChCSE	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.	ChCSE	30	71.4	12	28.6
Property of managers.	PManag er	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 our study sample meet more than half of the governance variables. Therefore, we reject our first hypothesis and accept the alternative hypothesis as follows:

H_{al}: There is significant difference between the Bahraini public shareholding companies in the application of the characteristics of corporate governance.

From the entire data in 2007-2011, most of the sample had chosen is showing that shareholders owned more than 50% of a company's outstanding shares. This is because the majority of investors in the Bahrain market are mostly the owners of the firm. Therefore, controlling more than half of the voting interests in the firm had impacted significantly 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 our data, the interval for board size within five years on average is 12 members. Therefore, our boards range result considered to be good size as large number of members may not keep a business to use their resources in an efficient manner (Central Bank of Bahrain, 2012).

Furthermore, Ownership of the largest shareholders is one of the important characteristic to investigate the impact of having multiple large shareholders on the evaluation of the listed firms selected in the data. We show that on average 43.8% of the firms listed in the data have multiple large shareholders. This is represented in family businesses where they have managerial or board control and they are more focused on their own benefits especially if there is no strong monitoring by other shareholders.

Board independence is also is an important variable. The key element of an effective board is to have a majority of an independent outsider's involvement. This means the greater the number

of outside members the better. Our data findings found that around 68.08% on average of the firms during the years 2007-2011 their board of directors were not controlled by more than 50% independent directors for the firm. This means that more than half of the firms in the data selected were not applying the board independence strategy. An independent outsider can be defined as an individual who has never worked at the company and it has no relationship to any of the employees, customers or any service providers such as accountants, investment bankers, lawyers, etc. Unfortunately, this is misapplied in reality because the "outsider" label is often given to a retired CEO or a family member where in fact an insider with interest conflicts. Besides, few outside board members provide low level of corporate governance to shareholders leading to less independent board members especially if there is no separation of the positions between the chairman and the CEO.

Most commonly, it is apparently better to split the positions of CEO and chairman than to combine them for good corporate leadership structure, improve regulations and develop financial reports. Based on our data over the year 2007 to 2011, it is clearly mentioned that on average of 69.04% of the firms were separating the chairman and the CEO for the company. The corporate governance code in Bahrain suggested that the chairman must be an independent director and cannot be the same person as the CEO in any circumstances to have a great power for independent decision making of the board.

Finally, one of the important corporate governance characteristics is property of managers. A property manager can be defined as a person or firm charged to manage and operate a real estate property for a fee if the landlord is unable to collect such details by in person. Our results indicate that over the 5 years, more than 90% of the firms having property managers and their company's shares are between 1-20% for the firm.

Many landlords don't have time or live too far a way to deal and collect rents. However, many landlords in Bahrain prefer to handle these responsibilities themselves because unfortunately not all property managers are honest or competent.

Firm's performance measures with control variables

After conducting descriptive statistic on the board governance characteristic of the firms taken as samples, a regression analysis is done from variables of corporate governance characteristic on firm performance measured with return on equity, return on asset, earning per share as well as the control variables used for our estimated models such as firm age, size of a firm and firm's financial leverage.

The study of the impact of corporate governance characteristics on firm performance variables is presented in this chapter using our study sample. Descriptive statistics is used to compare and report the significance of the changes in the period of five years (2007-2011). 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
	2011	0.02	-0.07	.16	0.05
AGE	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 and is an indication of margin of errors. Maximum value is the higher value and minimum value is the lowest value.

Firm performance as a dependent variable is measured with Return on Equity, Return on asset and Earning per share. Return on equity measures the rate of return on shareholders' equity. It is the efficiency measurement of the shareholders equity in generating profit. Furthermore, return on asset measures the profitability and the effectiveness of firm assets in increasing profit and shareholders interests. In addition, Earning per share also consider being one of the firms

profitability measurements and can be defined as the proportion of a net profit after taxes and preferences from each dollar of outstanding shareholders equity.

As for control variables, they are firm age, firm size (total assets) and financial leverage. Firm age is the total number of years from which a firm is starting their operations. Firm size is natural logarithm of total sales and leverage is debt to equity ratio. All variables used in this study and their definitions can be referred from Table 4.3 in chapter4.

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 BSE and reviewed in scope of 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, It is clearly mentioned that there is a wide deviation between firms since the ROA mean for sample firms is fluctuating during the 5 years. Thus; the mean value for ROA indicates poor performance of management in obtaining profit from firm assets. In addition, ROA is showing a negative figure for the minimum value of ROA. This pointed to that some of the businesses within the sample experiencing financial loss during the financial year 2008, 2009, 2010 and 2011 as in August 2007 turned out to be the starting point for big financial crisis where many big names rise, fall, and fall even more.

Furthermore, 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.

The mean age is 23.95 in the year 2007 and starts to increase to 27.45 in 2011. The maximum value of the age of the firm is 54 in 2011 and minimum value is 5. These findings indicate that listed firms have a long history of activity. Furthermore, the mean size indicator of total assets is found to be 950497.57 in 2007 and starts increasing till it reached 1037609.07 in 2011. It can be noticed that total assets was not affected with the financial crisis 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. In other words, GCC governments, central and individual banks reduced the effect of the global economic crisis by decreasing the rate of the return of GCC banks in order to increase profitability compared to western nations. Moreover, 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.

Empirical Analysis

Empirical analysis tests the impact of corporate governance variables on firm's performance in Bahrain's financial sector. Ordinary Least Squares OLS test (Multiple regression) used to explore the relationship of corporate governance variables among performance in Bahrain. There are three categories of firm performance discussed in our research. They are financial performance which is measured by return on Equity, Operational performance which is measured by return on assets ROA and finally Stock performance which is measured by earning per share EPS. According to the performance dimension that will be studied in our research; three models of regression are devised to discover the association of corporate governance among performance. The following formula is the study base model.

Firm performance = f (corporate governance variables)

Where firm performance is measured by three performance measures namely Return on Equity (ROE), Return on Assets (ROA) and Earning per share (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), and (6) Property of managers (PManager) and Control Variables are total assets (CSize), financial leverage (Leverage) and Firm age (FirmAge).

$$Perf_i = \beta_0 + \beta_1 OLSh_i + \beta_2 SBoard_i + \beta_3 OThLSh_i + \beta_4 IndepB_i + \beta_5 ChCSEO_i + \beta_6 PManager_i + \beta_7 Size_i + \beta_8 Leverage_i + \sum_{k=1}^{ne7} \beta_k Sector_{i,k} + \varepsilon_{i,\dots}$$

Therefore, we can write our main equations as:

$$ROE_i = \beta_0 + \beta_1 OLSh_i + \beta_2 SBoard_i + \beta_3 OThLSh_i + \beta_4 IndepB_i + \beta_5 ChCSEO_i + \beta_6 PManager_i + \beta_7 Size_i + \beta_8 Leverage_i + \sum_{k=1}^{ne7} \beta_k Sector_{i,k} + \varepsilon_{i,\dots}$$

$$ROA_i = \beta_0 + \beta_1 OLSh_i + \beta_2 SBoard_i + \beta_3 OThLSh_i + \beta_4 IndepB_i + \beta_5 ChCSEO_i + \beta_6 PManager_i + \beta_7 Size_i + \beta_8 Leverage_i + \sum_{k=1}^{ne7} \beta_k Sector_{i,k} + \varepsilon_{i,\dots}$$

$$EPS_i = \beta_0 + \beta_1 OLSh_i + \beta_2 SBoard_i + \beta_3 OThLSh_i + \beta_4 IndepB_i + \beta_5 ChCSEO_i + \beta_6 PManager_i + \beta_7 Size_i + \beta_8 Leverage_i + \sum_{k=1}^{ne7} \beta_k Sector_{i,k} + \varepsilon_{i,\dots}$$

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 which 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. While the Adjusted R squared is a corrected goodness-of-fit (model accuracy) measure for linear models. It identifies the percentage of variance in the target field that is explained by the input or inputs. Hence, adjusted R- square in general considered being the best value indicator for comparing the quality fitness of two models or more.

Table 9: Regression results on the relation between corporate governance and firm's performance with control variables.

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	.243	.127	0.899	1.576	0.117
Property of managers.	PManager	2.375	0.042	.290	0.772	-.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	-	0.000	-	0.302
				5.068		1.034	
Firm Age	FirmAge	2.192	0.045	1.157	0.249	0.301	0.764
F-Statistic		11.779		4.103		0.825	
P-value		0.003		0.000		0.594	
R²		0.053		0.160		0.004	
Adj.R²		0.008		0.121		0.001	

Test of first model (ROE)

Regression results of ROE model are stated that variables such as board size, independency of board of directors and property of managers were found to have a positive impact with firm performance.

On the other hand, the variable ownership of the largest shareholder is having a strong negative association with ROE. This is because that the majority of Bahrain businesses are family owned companies.

Moreover, two variables such as ownership of the three largest shareholders and posts of chairman and CEO were not affected by ROE. According to the control variables, we found that there is a clear positive relationship between leverage and return on equity. This is due that in an ideal level of financial leverage, a company's return on equity increases because the use of leverage increases stock volatility, increasing its level of risk which in turn increases returns. However, the control variables total assets and firm age were not affected by ROE.

R square is 5.3% which indicates 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 0.05 (level of significance). Thus, it can be inferred from statistical results that corporate governance variables has a significant relation on financial performance. Therefore, we reject the null hypothesis and accept the alternative hypothesis as follows:

Ha_{2.1}: There is significant impact of corporate governance on financial performance in Bahrain Stock Exchange.

Our research finding of positive impact of governance on financial performance is in conformance with existing research result of (Mitton, 2002). He argues that good governance fosters good financial performance.

Test of second model (ROA)

The size and independency of the board directors found to have a positive impact on ROA. Nevertheless, other variables were found to have no significant affect return on assets. Based on control variables, the results indicate that there is positive relation 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 is showing negative relation with return on asset. For the reason that when a company starts to borrow funds in order to increase its firm's total assets, the management efficiency in using its asset to make profit will decrease. Therefore, risk always involves as cost of borrowing is greater than profit generating from the firms' assets leading to large losses. Moreover, the variable firm age in this model was found to have no significant affect return on assets.

R square and F- statistics of this model are 16% and 4.103 respectively. P- Value is 0.00 which is less than 5% significant level. Hence we reject the null hypothesis and accept the alternative hypothesis as follows:

H_{a2.2}: There is significant impact of corporate governance on operational performance in Bahrain Stock Exchange.

Chiang (2005) had written a research entitled: "An Empirical Study of Corporate Governance and Corporate Performance". Findings show that corporate transparency had a positive impact on operating performance and it considered one of the most significant indicators for corporate performance evaluation. Thus, Chiang findings supported our study results as 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 Earning per share. All the variables showing in this model are having a no significant connection with EPS. This means, corporate governance has no influence on performance as depicted by EPS. In addition, all the control variables showing in the EPS model are having a no significant connection with EPS. R square for EPS model is 0.004, which shows that about 0.4% of the sample identifies EPS and F statistic is 0.825. p- Value is 0.594 which is bigger than 0.05 (level of significance). Thus, we accept our null hypothesis as follows:

H_{02.3}: There is no significant impact of corporate governance on stock performance in Bahrain Stock Exchange.

Allen (2005), finding similar results supported our research finding and concluded that corporate governance mechanisms have no significantly impact on stock performance which is measured by EPS.

In comparing the best regression model with the last three models discussed in our research, is the one with the largest adjusted R²-value. The adjusted R square of the three models ROE, ROA and EPS are 0.8%, 12.1% and 0.1% respectively. Therefore, the best model in our 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 are successful in improving firm's performance. The best approach of good governance on the performance of a company maybe appreciated if we recognize that growth is significantly associated with the investment size as well as the efficiency of its 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 Stock Exchange (BSE) for the period of 5 years (2007- 2011).

According to the performance dimension studied in our research, firm performance was tested using accounting measures such as return on equity, return on assets and earning per share. Also, corporate governance variables were measured using five indicators such as ownership of the largest shareholder, board of directors size, ownership of the three largest shareholders, independency of board of directors, posts of chairman and CEO and property of managers.

Previous studies was used the SPSS statistical program to analyse the descriptive statistics and regression models to test the effect of corporate governance on firm's performance with control variables. Therefore, SPSS was also used for our study since it is appropriate for our sample size and the variables of the data.

The results of the study indicate that are practicing corporate governance structure. Descriptive results found that our sample firms fulfil corporate governance system more than average level (61.2%) for the entire period in the study. This study found that shareholders ownership is more than 50% of a firm's outstanding shares in Bahrain Stock Exchange. 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 which considered to be good size. In addition, these boards are considered to be less independent with about 68.08% of firms in the data selected which means the majority of the firms were not applying the board independence strategy. Besides, around 69.04% on average of the firms is showing separation posts of the CEO and board chair.

Empirical results found that corporate governance variables are significantly correlated with return on equity and return on assets as the performance measures in Bahrain Stock Exchange. So that hypotheses one and two are rejected. However, in our empirical study, EPS performance measure did not show any significant impact related to corporate governance and hence we accept the null hypothesis.

There are two of Corporate Governance characteristics namely size and the independency of board of directors were found to have a positive significant impact on ROE and ROA. In addition, the corporate governance variable Property of managers found to have a clear positive

relationship with firm performance as measured by ROE. However, ownership of the largest shareholder is having 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 provide evidence that there leverage is impacted positively to return on equity performance measure. In addition, the results indicate that there is positive relation between total assets and return on assets. However, financial leverage is showing negative relation with return on asset.

Overall, the study provide evidence that there is a positive impact of corporate governance variables on firm performance in Bahrain Stock Exchange as two out three models of our study supporting our problem statement.

The study is considered to be limited because it studies performance in companies in a period of five years only 2007-2011. This time series may be unstable 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 and it is considered to be a small sample to be studied and it is considered to be an emerging market. Further studies may be conducted on the whole GCC market, because the GCC economies are considered to be having a lot of similarities in lows and nature of economy.

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