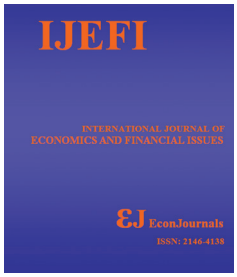

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Impact of Ownership Structure and Corporate Governance on the Performance: A Case of Selected Banks in UAE

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ABSTRACT

The purpose of this study is to analyze the intervening role of corporate governance in determining the impact of ownership structure on the performance of banks. A self-administered questionnaire has been used to collect the data. Descriptive Statistics, correlation analysis and regression model have been used to test the hypothesis. The result of the study shows that there is a significant relationship between corporate governance practices and bank's performance. However, ownership structures do not have strong impact on the profitability of the banks. It is expected that the findings of this research paper would contribute to improve understanding about corporate governance practices in UAE banking sector.

Keywords: Corporate Governance, Bank Performance, Wnership Structure, Board Size, Board Composition, Return on Assets, Return on Equity
JEL Classifications: G21, G32, G34

1. INTRODUCTION

The outburst of global financial crisis has triggered many discussions and debates about the effectiveness of corporate governance across the world. Severe financial scandals and corporate failures brought about an increasing attention to corporate governance. Especially the banking sector has been severely criticized for its role in the financial crisis in 2008. (Asian financial crisis, Asian Development Bank, 2000). Post-recession period, various researches have revealed that weak governance of banks was a major cause of the financial crisis in 2008. (Kirkpatrick, 2009). Recognizing the significance of corporate governance and regulations, several studies (e.g., Laeven and Levine, 2009; Shehzad et al., 2010) have examined the impact of governance and bank regulations on risk-taking, but they have not taken into account different types of ownership. Zhuang (1999) argued that ownership structure is one of the most important factors in shaping the corporate governance system of any bank. A number of studies have shown that ownership matters in bank performance, for instance, privately-owned banks have superior performance than to state-owned banks (Barth et al., 2005; La Porta et al., 2002; Ghazali, 2010).

To cement the resilient foundation of good CG practices, various countries across the world revised their legal and regulatory frameworks from time to time. In the MENA region also, the corporate governance framework had undergone substantial changes in past decade in order to improve international competitiveness and to commensurate it with international standards. However, despite all these measures, the problem of corporate governance still remains unresolved. The studies with regard to corporate governance theme have mainly been carried out in developed economies mostly in the UK and US with few afore mentioned being done in Middle East and specifically UAE. Naceur and Omran (2011) address the effects of financial development, institutional factors and competition on bank performance in MENA countries, but they do not consider ownership structure and corporate governance. It is in the light of the above, that this research sought to study ownership structure and corporate governance and its effects on performance of the banking industry in UAE.

1.1. Statement of Problem

The financial sector of Middle East is distinguished from other Western industrialized countries by dominance of Family Oriented

Enterprise and State Oriented Enterprises. Despite tight regulatory framework, corporate governance continues to remain vulnerable in UAE. It is on this basis that the study sought to establish the effects of corporate governance and ownership structure on performance of banks.

1.2. Research Questions

This study seeks to answer the question like;

a. What are the different ownership structures of banks in UAE?
b. How does ownership structure and corporate governance relate to the performance of a bank?
c. What is the relationship between corporate governance and performance?
d. Is relationship between corporate governance and bank performance sensitive to type of bank ownership?

1.3. Conceptual Framework of the Research

In the conceptual framework model, it is assumed that various types of ownership structure have a direct influence on corporate governance. For instance, the board size which may be large or small, audit independence, board composition i.e., proportion of inside and outside directors, number of board meetings etc (Annexure I-Figure 1).

Corporate governance, which is intervening factor, affect performance of the firm i.e., board size can affect financial performance of the bank. If the board size is too big, this may interfere with the decision making process, for instance, the financial structure of the organization like share ownership, capital injection or ratio of equity ownership. Overall, this will have an effect on the financial performance of the firm e.g. there may be evidence of decrease in earnings per share (EPS) which may imply that the firm is not performing well in the stock market hence decreasing stock price.

Previous studies are more concerned about differentiation and correlation between the degree of corporate governance and bank. However, there is little attention about causal relationship between them. Moreover in the Middle East, there is little research effort devoted to investigating the effect of corporate governance on bank performance, as most empirical studies exclude banks from their sample. So, this study attempts to contribute to the corporate governance investigations in developing countries by examining the association between corporate governance, ownership structure and bank performance in a UAE. The empirical results would also provide general indicators of corporate governance useful for both regulator and policymakers in banks.

This study comprises five sections, commencing with Section I which introduces the topic and provides the background to the study as well as identify the gaps in the literature. This section also describes the conceptual framework of the research. Section II provides literature review on the inter relationship among ownership structure, corporate governance practices and firm performance. This chapter discusses theoretical perspectives of the conceptual framework, on the basis of which the hypotheses are developed to test the model of corporate governance constructs. Section III explains the methodology of the study and includes the discussion of the variables used in the model for all the variables including ownership structure, corporate governance and firm performance. It includes the data collection methods, measurement used and the methods adopted for testing the hypothesis. Section IV discusses the results of the statistical analysis of the data. Correlation analysis and generalized least square (GLS) method of regression are used to measure the strength of association and interaction among ownership structure, corporate governance and firm performance variables. Section V presents the summary and conclusion of the study. In particular, it provides an overview of the analysis of the relationship among various variables of the study. It also discusses the findings, implications, limitations, recommendations and suggestions for future research directions.

2. LITERATURE REVIEW

Keasey and Wright (1993) defined corporate governance as a framework for effective monitoring, regulation and control of companies which allows alternative internal and external mechanisms for achieving the laid down objectives. These mechanisms include those internal to the firm and its organisation, and those external to the firm such as statutory requirement and the operation of the markets. Using the Agency theory approach, Shleifer and Vishny (1997) defined corporate governance as a process in which a supplier of finance to firms assure themselves of getting a return on their investment. The Organization for Economic Co-operation and Development (OECD, 2004) defines corporate governance as a set of relationships between a company's management, its board, its shareholders and other stakeholders. In developed countries, the interest in corporate governance of policy makers has grown significantly starting in the early 1990s (Cheung and Chan, 2004).

2.1. Relationship between Ownership Structure and Corporate Governance

A lot of attention has been given to assess the relationship between ownership structure and corporation performance. Zhuang (1999) argued that ownership structure is one of the most important factors in shaping the corporate governance of any firm. This is because it determines the nature of the agency problem. That is, whether the dominant conflict is between managers and shareholders, or between controlling and minority shareholders. Zhuang further argued that when ownership of a company is concentrated, large shareholders would play an important role to monitor the management.

According to La Porta et al. (2000), when the legal structure does not offer sufficient protection for external investors and entrepreneurs, original owners are forced to maintain large shares in their companies which result in a concentrated form of ownership, thus, having implications on ownership structure. On the other hand, according to Shirley and Walsh (2001), bulk of the evidences indicates that privately held firms are more efficient and profitable than publicly held ones although the evidence differs on the relative merit of the identity of each private owner.

Holderness (2009) affirmed that an overlap between ownership and control can lead to a reduction in conflicts of interest in the

firm. He further states that it can be complicated when looking at how ownership, control and firm value are related. For example, management owning a company can serve better to put in line managers' interests with those of the shareholders of the company. On the other hand, if managers and shareholders' interests are not completely aligned, higher stake in the company can give managers greater freedom to pursue their own goals without fear of reprisal. Hence, the effect of managerial ownership on the value of the firm depends on the trade-off between the alignment and entrenchment effects (Denis & McConnell, 2002).

Kaur (2012) attempted to find out the differences in disclosure policies of private sector banks vis a vis those of public sector banks in India. She concluded on the basis of various disclosure parameters that there is no statistically significant difference in the corporate governance disclosure policies of the two sectors in the banking industry in India. Abdallah and Ismail (2017) find that the positive relationship between corporate governance and firm performance is an increasing function of dispersed ownership and that the value addition of good corporate governance is not necessarily maintained at high levels of ownership concentration.

H_1: There is positive relationship between ownership structure and corporate governance in the bank.

2.2. Relationship between Corporate Governance and Firm Performance

Ciancanelli and Gonzales (2000) argued that banking sector has different market structures which do not meet the basic assumptions of agency theory. Besides unusual agency problem, bank managers and owners are subject to the regulation. Black et al. (2003) provided empirical evidence that there is a positive correlation between corporate governance and performance, but they could not offer explanation about the causal relationship among these variables.

Roe (2004) in his paper outlined the institutions of corporate governance in the West. In particular, institutions face two problems: Vertical governance (between distant shareholders and managers) and horizontal governance (between close, controlling shareholder and distant shareholder).

In their paper, Hassan et al. (2004) presented the agency problems of the banking sector based on a corporate governance literature review. They found that in developing countries corporate governance is rather weak due to the information asymmetries, agency problems, political corruption and absence of stable accounting practices, which negatively affect all companies' participants and especially stakeholders. Empirical evidences provided by (Beiner et al., 2004; Brown & Caylor, 2004; Yermack, 1996; Zeckhauser & Pound, 1990) confirm a positive relationship between good corporate governance practices and corporate performance.

According to Tandelilin et al. (2007) managers and owners of banks showing efforts and intention to implement good corporate governance increase market credibility and subsequently collect funds at lower cost and risk. It can be argued that better corporate governance will lead to high performance. Generally, there appears to be no empirical evidence that the existence of outside directors is correlated with firm performance (Abdulsamad and Zulkafi, 2007).

In an attempt to shed more light on the link between corporate governance and firm performance, Coleman (2007) did a study in Africa targeting 103 listed firms on Ghanaian, Nigerian, Kenyan and South African stock exchanges. The findings of the study indicate that large and independent boards enhance firm value and that when a CEO serves as board chair, it has negative effect on performance and such firms employ less debt. He also found that a CEO's tenure in office enhances firms' profitability while board activity intensity has a negative effect on firm profitability. The appointment of independent directors to the board is one example of good governance practices (Cho and Kim, 2007; Payne et al., 2009).

Zattoni and Cuomo (2010) in their study about corporate governance in listed companies, emphasized the importance of the independence, competency and incentives of independent non-executive directors for their effective functioning. Another Middle East study Al-Najjar (2014) also obtained a positive correlation for board independence with firm performance of tourism firms.

H_2: There is a positive relationship between corporate governance and bank performance.

2.3. Relationship between Ownership Structure and Firm Performance

Jensen and Meckling (1976) argue that the principal-agency theory is generally considered as the starting point for any debate on corporate governance. The agency theory sets out as a basis that better corporate governance should lead to higher stock prices and or better long-term performance, agency problems are minimized, leading to a decrease in agency cost and information asymmetry. They provided results of their researches on ownership structure and firm performance by dividing shareholders into internal investors with management right and external shareholders who are investors without ballot right. The conclusion of their research was that value of the firm depends on the internal shareholder's share, which is called ownership structure.

Lang and So (2002) examined the composition of ownership structures of banks in emerging markets. They observe that foreign banks have higher holdings as compared to domestic banks if state stakes are excluded. In terms of bank performance, ownership structure has no impacts on the bank performance. However, Gompers et al. (2003) and La portal et al. (2002) argue that firm performance may have little to do with agency explanation. The studies that examine the relationship between corporate governance and firm performance have emphasized such governance practices as board composition, board size, CEO turnovers and ownership of shares, disclosure and transparency and shareholders rights. In a study of 249 large banks in 20 countries in the Middle East and North Africa (MENA), (Kobeissi, 2004) found a positive relationship between ownership concentration and performance in the banking sector.

Delfino (2007) examined the impact of control changes (due to privatization, foreign acquisition and mergers and acquisitions) on efficiency and productivity in Argentina's banking sector. Specifically, she used panel data for the period 1993-2000 in order to construct the regression model and came to the conclusion that state owned banks were less efficient than private ones. Bank privatization provided only short term efficiency gains, foreign acquisitions led to stronger productivity performance of acquired banks, though it did not affect efficiency, and finally, mergers and acquisitions had a negative impact on bank's performance.

Grant Kirkpatrick, (OECD publication 2009) analysed the impact of failure and weakness in corporate governance on the financial crisis. The paper focused on risk management system, executive salaries, accounting standards, and regulatory requirements all are proved to be insufficient in some areas. The paper recommended that importance of well qualified board function and better risk management was not limited to financial institutions. The remunerations of the boards and senior management are also a serious controversial issue in most OECD countries. The present situation requires the need for OECD to reassess the adequacy of its corporate governance principles and practice.

Some of the previous studies have reported a positive relationship between ownership concentration and corporate performance (Perrini et al., 2008; Gedajlovic & Shapiro, 2002; Al-Farooque et al., 2010; Ma et al., 2010; Silva & Majluf, 2008; Garcı´a-Meca & Sa´nchez-Ballesta, 2011). Their findings were supported by the efficient monitoring hypothesis, which argue that greater ownership concentration can eliminate the agency conflict between owners and management and decrease the costs of management monitoring and leads to improved performance and productivity. Lepore et al. (2017) find that higher ownership concentration with an efficient judicial system improves firm performance particularly in countries with weak investor protection. Bian and Deng (2017) examine Chinese banks over 2007 to 2014 and find that higher ownership dispersion improves return on assets (ROA), return on equity (ROE) and reduces the ratio of nonperforming loans.

H_3: There is positive relationship between ownership structure and bank performance.

3. RESEARCH METHODOLOGY

The study investigates the performance of the banks over the period 2009-2016 using data mainly from banks' annual reports and financial statements for the various years.

3.1. Data, Variables, and Descriptive Statistics

The number of operating banks in UAE at the end of 2016 stood at 44 banks, of which 23 are locally incorporated banks while seven are Islamic banks and ten are branches of foreign banks, including a branch of an Islamic bank.

3.2. Research Methods

Secondary data are collected from quarterly financial reports and annual bulletins of the banks. Primary data were collected from respondents (directors and managers) of the sample banks (Annexure II).

3.3. Data Analysis

Statistical Package for Social Sciences and Eviews software are used to assess and analyze the collected data to examine the relationship between corporate governance practices and firm performance. There are three methods of analysis used in this study, which are descriptive statistics, correlation analysis and regression model. These methods were used as the underlying statistical tests to describe the original characteristics of a data set.

3.4. Regression Analysis

To measure bank performance, this paper used variables that are commonly used in the literature, namely, the Return On Assets (ROA) and Return On Equity (ROE) (Abdulsamad and Zulkafli, 2007, Weisbach, 1988 and Kobeissi, 2004).

3.4.1. ROA

ROA is an accounting-based performance measure widely used in the corporate governance literature. It is a measure which assesses the efficiency of assets employed by the firm and shows the earnings the firm has generated from its investment in capital assets. ROA is calculated as net income divided by total assets.

3.4.2. ROE

ROE is another accounting-based performance measure widely used in corporate governance research. It is a measure that shows the profit generated from the money invested by the shareholders. ROE is calculated by dividing net income by common equity.

Control variable - since larger banks might have enjoyed scale or scope economies that had positive effects on their financial performance, the size of banks in terms of total assets (scale) is used to control for bank size.

GLS is a technique for estimating the unknown parameters in a linear regression model. The GLS is applied when the variances of the observations are unequal (heteroscedasticity), or when there is a certain degree of correlation between the observations. This methodology allows researchers to examine variations among cross-sectional units simultaneously with variations within individual units over time (Gaur and Delios, 2006). GLS is considered as the proper estimation method when it effectively standardizes the observations (Baltagi, 2008; Greene, 2003). Gujarati (2003) stated that GLS is capable of producing the estimator - Best Linear Unbiased Estimators, and in this case OLS is not reliable as the result is not efficient or may even give misleading inferences.

Regression model: To investigate whether corporate governance affects efficiency and bank performance, the following regression model is used:

$$PERF = \alpha 0 + \beta 1\ BOS_{it-1} + \beta 2\ BSIZE_{it-1} + \beta 3\ BCOMP_{it-1} + \beta 4\ BMTG_{it-1} + \beta 5\ BCOM_{it-1}$$

PERF = ROA, ROE, or efficiency score
BOS = Ownership Structure of Bank

Table 1: Descriptive statistics of sample data

Variables	n	Range	Minimum	Maximum	Mean±SD	Variance
ROA	36	2.82	0.91	3.73	2.1717±0.77955	0.608
ROE	36	16.10	5.40	21.50	15.5022±3.84739	14.802
BOS	36	1	1	2	1.39±0.502	0.252
BSIZE	36	5	6	11	8.44±1.617	2.614
BCOMP	36	11	0	11	5.67±3.481	12.118
BMTG	36	10	1	11	5.11±2.610	6.810
BCOM	36	7	2	9	4.61±1.577	2.487

Source: Compiled by authors from data of sample banks. ROA: Return on assets, ROE: Return on equity

Table 2: Correlation analysis for ROA

Variable	ROA	BOS	BSIZE	BCOMP	BMTG	BCOM
ROA						
Pearson Correlation	1	0.062	0.543*	0.073	0.381	−0.057
Sig. (2-tailed)		0.806	0.02	0.773	0.119	0.821
BOS						
Pearson Correlation	0.062	1	0.021	0.2	-0.34	0
Sig. (2-tailed)	0.806		0.933	0.426	0.168	1
BSIZE						
Pearson Correlation	0.543*	0.021	1	0.500*	0.489*	0.214
Sig. (2-tailed)	0.02	0.933		0	0.039	0.393
				035		
BCOMP						
Pearson Correlation	0.073	0.2	0.500*	1	0.058	−0.111
Sig. (2-tailed)	0.773	0.426	0.035		0.82	0.661
BMTG						
Pearson Correlation	0.381	−0.34	0.489*	0.058	1	0.029
Sig. (2-tailed)	0.119	0.168	0.039	0.82		0.909
BCOM						
earson Correlation	−0.057	0	0.214	−0.111	0.029	1
Sig. (2-tailed)	0.821	1	0.393	0.661	0.909	

Source: Compiled by authors from data of sample banks. *Correlation is significant at the 0.05 level (2-tailed). ROA: Return on assets, ROE: Return on equity

BSIZE = Number of board directors
COMP = Proportion of non-executive directors on the board
BMTG = Number of board meetings
BCOM = Number of board committees

3.5. Sample Selection

This research is limited to the Top 36 banks in UAE, covering the period from 2009 to 2016. For Primary data collection, questionnaire were sent to managers, directors and administrative staff of 44 banks but questionnaire with insufficient data were eliminated and only data of 36 banks were taken for consideration.

4. DATA ANALYSIS AND INTERPRETATION

4.1. Descriptive Statistics

Descriptive statistics describe the characteristics of board structure prevalent among UAE banks and the variables used to measure corporate governance and performance. The table 1 shows Descriptive Statistics of the sample data.

From exhibit 4.1, it can be seen that the mean value of the board size was 8.44 persons, and the standard deviation was 1.617 (<2). The mean value of board size shows existence of a quite a reasonable board size, moreover, low standard deviation in the board size indicated that the data tends to be very close to the mean which signifies that sample banks have a relatively similar board size. These results are consistent with Jensen and Ruback (1983) who suggested that a board size of not more than 7 or 8 members is considered reasonable in ensuring effectiveness. Hermalin and Weisbach (2003) also assert that when the size of the board becomes too large, the board becomes more of a symbol within the company rather than being truly involved in the management process.

The mean value for number of non-executive directors in the board is 5.67 which reveal that on an average, each sample bank has reasonable number of independent directors in their board. The average numbers of board committees (BCOM) and board meetings (BMTG) are also appropriate as shown in above exhibit. The maximum and minimum values of ROE are 21.5% and 15.5% respectively. However, a ROA of 2.82% was generated on the average, with a minimum and maximum percentage of 3.73% and 0.91% respectively.

4.2. Correlation Analysis

The following exhibits show the results of the correlation analysis using ROA and ROE as the dependent variable (Table 2).

The correlation results for ROA depict that the board size has a moderate positive correlation with ROA with a correlation coefficient of 0.543. This means the ROA increases as the board size increases which are consistent with the conclusions drawn by Zahra and Pearce (1989) who argued that a large board size brings more management skills and makes it difficult for the CEO to

Table 3: Correlation analysis of ROE

Variable	ROE	BOS	BSIZE	BCOMP	BMTG	BCOM
ROE						
Pearson Correlation	1	0.157	0.489*	-0.014	0.414	0.209
Sig. (2-tailed)		0.533	0.04	0.957	0.087	0.405
BOS						
Pearson Correlation	0.157	1	0.021	0.2	-0.34	0
Sig. (2-tailed)	0.533		0.933	0.426	0.168	1
BSIZE						
Pearson Correlation	0.489*	0.021	1	0.500*	0.489*	0.214
Sig. (2-tailed)	0.04	0.933		0.035	0.039	0.393
BCOMP						
Pearson Correlation	−0.014	0.2	0.500*	1	0.058	-0.111
Sig. (2-tailed)	0.957	0.426	0.035		0.82	0.661
BMTG						
Pearson Correlation	0.414	-0.34	0.489*	0.058	1	0.029
Sig. (2-tailed)	0.087	0.168	0.039	0.82		0.909
BCOM						
Pearson Correlation	0.209	0	0.214	−0.111	0.029	1
Sig. (2-tailed)	0.405	1	0.393	0.661	0.909	

Source: Compiled by authors from data of sample banks. *Correlation is significant at the 0.05 level (2-tailed). ROA: Return on assets, ROE: Return on equity

Table 4: Regression analysis of variables (with ROA)

Variable	Coefficient	Standard Error	t-Statistic	P
Intercept	0.034335	0.020627	1.664564	0.0139
BSIZE	0.4638	0.004324	0.609976	0.0056
BMTG	0.0865	0.002199	0.393518	0.0705
BCOM	−0.04263	0.003226	−1.321647	0.0227
BCOMP	−0.03273	0.003502	−0.934582	0.0381
R-squared	0.518001	Mean dependent var		0.021317
Adjusted R-squared	−0.269142	S.D. dependent var		0.009903
S.E. of regression	0.010708	Akaike info criterion		−5.931586
Sum squared resid	0.000803	Schwarz criterion		−5.67084
Log likelihood	44.55531	Hannan-Quinn criter.		−5.985181
F-statistic	0.652788	Durbin-Watson stat		1.555066
Prob (F-statistic)	0.669922			

Source: Compiled by authors from data of sample banks. ROA: Return on assets, ROE: Return on equity

Table 5: Regression analysis of variables (with ROE)

Variable	Coefficient	Stdandard Error	t-Statistic	Prob.
Intercept	0.10391	0.062134	1.672387	0.0115
BSIZE	0.356	0.009557	0.372492	0.04147
BMTG	0.1224	0.006834	1.791949	0.0633
BCOMP	-0.05017	0.006819	-0.735848	0.0473
BCOM	0.01133	0.010319	1.097995	0.0289
R-squared	0.5205	Mean dependent var		0.16084
Adjusted R-squared	0.05634	S.D. dependent var		0.039998
S.E. of regression	0.038972	Akaike info criterion		-3.439628
Sum squared resid	0.022782	Schwarz criterion		-3.190695
Log likelihood	39.39628	Hannan-Quinn criter.		-3.391034
F-statistic	1.253337	Durbin-Watson stat		1.779703
Prob (F-statistic)	0.331124			

Source: Compiled by authors from data of sample banks

manipulate the board. However, ownership structure has negligible correlation with ROA with coefficient with 0.062.

It is also revealed that number of board meetings have weak positive correlation with ROA which supports the fact that banks can improve their ROA, to some extent, by holding frequent meetings. Also, the board composition and number of committees have a very weak positive and negative correlation with ROA respectively. Moreover, it is obvious from the results that ROA is not much affected if there is increase in the proportion of non-executive directors to executive directors or the number of committees in the sample banks (Table 3).

From the correlation result in exhibit 4.3 above for ROE, the board size has a moderate positive correlation with ROE with a coefficient of 0.489. This means the ROE increases as the board size increases and it is significant at 5% level, although this correlation is little weaker as compared to its relation with ROA.

It is also obvious that number of board meetings have moderate positive correlation with ROE with a coefficient of 0.414. These results are in line with the studies conducted by Adams and Ferreira (2009), Jiraporn et al. (2009) and Masulis et al. (2012), who concluded that the board meeting is an important avenue for the interactions of directors and management.

Also, the board composition and number of committees have a very weak positive and negative correlation with ROE respectively. Therefore it is obvious that ROE is not much affected if there is increase in the proportion of non-executive directors to executive directors or the number of committees in the sample banks. These results are consistent with the conclusions of earlier banking studies (e.g., Belkhir, 2009; Adams & Mehran, 2012).

4.3. Regression Analysis

Regression analysis is used to evaluate the relationship between dependent variables i.e.. bank's performance and independent variables i.e., corporate governance mechanism and ownership structure of banks. The following Table 4 exhibits the results of regression analysis.

As revealed in the exhibit 4.4, the regression equation employed ROA as its dependent variable and board size, board composition, number of board meetings and number of board committees are independent variables. The result shows that board size and number of meetings significant in explaining effect on bank's profitability in terms of ROA.

Board size has a positive effect on bank's profitability, one unit increase in board size will increase the ROA by the coefficient and vice versa, reaffirming the fact that the larger the board size, the better the performance. Also the number of board meetings has significant impact on profitability of banks. However, board composition and number of board committees have negative correlation with ROA.

The R-squared statistic measures the success of the regression in predicting the values of the dependent variable within the sample. In standard settings may be interpreted as the fraction of the variance of the dependent variable explained by the independent variables. The above results reveal that 51.2% of variance of the ROA can be explained by the four variables taken into account (Table 5).

As revealed in the Table 5, the regression equation employed ROE as its dependent variable and board size, board composition, number of board meetings and number of board committees as independent variables. The result shows that board size has a positive effect on bank's profitability while number of board meetings has very little effect on it in terms of ROE. However, board composition has negative correlation with ROE.

The r-squared clarifies this further by indicating that about 52% of the variation in ROE is accounted for by these independent variables. Where adjusted R^2 stands at 0.0563, which shows that with putting the new variable in the equation, chances of improvement in the R square are less. The calculations prove that there is a positive correlation between the performance of selected banks and the independent variables.

5. CONCLUSION AND SUGGESTIONS

5.1. Research Findings and Conclusions

This study is an attempt to examine the impact of ownership structure and corporate governance variables (board size, board composition, number of board meetings, number of board committees) on the performance of selected UAE banks measured by ROE and ROA. It was observed that most of Corporate Governance mechanisms adopted by UAE banks are mandatory. All banks covered under this study have appropriate numbers of board of directors, auditors, audit committee, credit committee and an executive committee. However, many banks also have other committees which are created voluntarily to enhance corporate governance structures in these banks such as risk management committee, and nomination and remuneration committees. UAE banks' boards of directors are increasingly more independent, particularly with the prevalence of non-executive directors on the board, and the lack of the duality of direction.

In this study, three hypotheses were tested on the cross sectional data of 36 UAE banks for the period 2009-2016.The results indicated that there is very weak and insignificant correlation between ownership structure and corporate governance variables (as shown in exhibits 4.2 and 4.3). Hence, the first hypothesis about the positive relationship between ownership structure and corporate governance is rejected.

The board size has a significant positive correlation with ROA with a coefficient of 0.543 and has a moderate positive correlation with ROE with a coefficient of 0.489. This means ROE increases as the board size increases and it is significant at 5% level, although this correlation is little weaker as compared to its relation with ROA. These results are same as per existing literature (Muhammad, 2008; Safieddine, 2009; Ibrahim, 2010; Hassan, 2011; Francis, 2012; Khan et al., 2014).

It is also revealed that number of board meetings has weak positive correlation with ROA which supports the fact that banks can improve their ROA, to the some extent, by holding frequent meetings. Also, the board composition and number of committees have a very weak positive and negative correlation with both ROA and ROE respectively. Therefore, it can be concluded that ROA and ROE are not much affected if there is an increase in the proportion of non-executive directors or the number of committees in the sample banks.

The regression result shows that board have significant effect on bank's profitability in terms of ROA as well as ROE. While number of board meetings has a weak positive effect on bank's profitability. As anticipated, there is a positive correlation between board size and bank performance, therefore, the second hypothesis about positive relationship between CG variables and bank performance, is accepted.

The findings also reveals that the ownership structure has insignificant statistical correlation with ROA and ROE with coefficient of 0.062 and 0.157 respectively, which indicate that ownership structure has no impact on the performance of the bank in terms of ROA or ROE. Hence, the third hypothesis about the positive relationship between ownership structure and bank performance is rejected.

5.2. Recommendations of the Study

Although the functions of the board are, in most cases, in the line with best practices, certain areas need to be given special attention. For example, boards play a minor role in overseeing the risk management and internal audit function of the banks. Board members also should have proper information about how the banks manage risk and conduct the internal audit. The following suggestions and recommendations will facilitate in identifying the areas where improvement is necessary to ensure good board practices in the banking sector of UAE.

- Boards should consider overseeing the risk management and internal audit functions of the banks to ensure the best interest of the stakeholders.
- Awareness on the benefits of having an independent director on the board is of utmost importance and bank should recognise that appointment of independent director will certainly add value as they can protect the interest of its stakeholders.
- Bank should encourage audit committee members to understand the role of the committees and should provide proper incentives. In addition, an independent director should be appointed to lead the committees who can provide his or her independent judgement for the best interest of the bank's shareholders. Although, the frequency of board meetings in banks are in line with best practices, there are certain areas that need to be improved for an effective board meeting e.g., the timing and type of documents shared with board members before board meetings.
- Banks should initiate performance evaluation of the board to ensure that the board achieves its purposes and is best able to protect the interest of stakeholders.
- Banks should consider organising seminars, workshops sessions on Corporate Governance for its board members and also should arrange orientation sessions for new members.
- Lastly, shareholders need to know that they have an important role in ensuring that the banks management are following and implementing good corporate governance. They can do this through establishing certain control means thus undertake the monitoring process. Furthermore, other stakeholders should play a more active role in ensuring good corporate governance in corporations.

5.3. Limitations and Scope of Further Research

Although it is believed that this study provides novel insights in arena of corporate governance in UAE region, still this research is subjected to certain limitations. Firstly, the sample size is small (i.e., 36 banks). Secondly, the time period of research is short (i.e., 7 years). Thirdly, market-based measures of financial performance have not been considered in this study. Lastly, the study does not consider control variables like age of bank, size of the bank, capital structure etc.

This research can be improved by analyzing a longer time period to achieve more accurate results. It is recommended that the financial data ranging over 20 years would be reliable. There are possible numbers of variables that can be used to investigate the determinants of corporate governance practices and firm performance. This study has only used board size, composition and number of committee as the tools to indicate the corporate governance practices of companies. Besides other internal mechanisms of corporate governance such as ownership concentration, audit committees etc. also can be added. In this study only ROA and ROE of the banks was used to indicate the performance. There are still many other indicators such as EPS, Tobin's Q can also be used to measure bank performance. Number of samples can also be expanded as it can widen the scope and quality of the research, thus the findings will be more rich and accurate.

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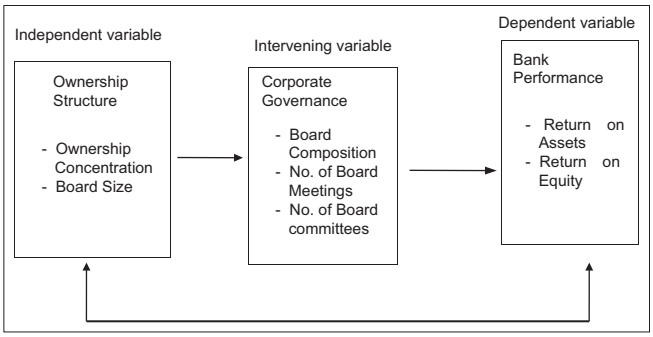
ANNEXURES

Annexure I

Figure 1: Conceptual model framework for research



Annexure II

No.	Question	Strongly disagree	Disagree	Neutral	Agree	Strongly disagree
A	Number of board of directors					
B	Increase in bank performance for last 3 years					
C	Ownership of bank is concentrated					
1	The company have a written code of corporate governance which covers the specification of					
2	a. Board of directors					
3	b. the rights of shareholders					
4	The company have revealed a code of conduct/ethics clearly					
5	The firm publishes and distributes its financial results and management analysis					
6	The roles, responsibilities, and delegated authority of the BoC are clearly spelled out in writing					
7	The BoD actively monitors the results of the monthly business					
8	Your company provides equal access to information for shareholders and investment analysts					
9	Please rate the quality of: a. Internal Audit b. Audit Committee c. External Audit					
10	The company regularly held self-assessment of good corporate governance					