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The Effect on the Relationship Between Board of Directors Characteristics on Firm Performance in Oman: Empirical Study

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Abstract: This study aimed to examine the relationship between 8 internal corporate governance mechanisms and firm performance (ROA) of the Muscat Security Market (MSM) listed companies during 2011 and 2012. The sample comprised of non-financial firms. Based on the extensive literature review that relate to the relationship between corporate governance and firm performance, there is lack of studies in the existing literature review that are dedicated to important variables such as the board change, the role of secretary and the legal counsel that help to improve the practice of corporate governance and improve the performance of the companies. Therefore, this study is an attempt to fill the gap in literature review as it investigates these new measures. The findings of this study reported that the relationship between board size (BOARDSIZE), board meeting (BOARDME), CEO tenure (CEOTENU), board change (BOARDCH) and legal counsel (LEGALCO) with ROA is positive but not significant. However, the effect of board independence (BORADIN) and role of Secretary (SECRETA) on the firm performance is negative but not significant. Finally, the CEO compensation (CEOCOM) and firm performance is found to be significantly and positively related. The limitations and recommendations are provided at the end of the study.

Key words: Corporate Governance · Board of Director Characteristics · Performance and Oman.

INTRODUCTION

Businesses all over the world are in need of development and growth in the quest to obtain investments. Prior to investing in a specific business, investors often ensure that the business is financially secure and stable and it is able to generate profits in the long term [1-3]. Therefore, in cases where company position is negative, investors are not as attractive to it as it hopes to be. This inability to attract enough investment often results in adverse results for the business and for the country's economy. Corporate governance is one of the topics of interest to many researchers as the mechanism to reduce the conflicts of interest between management and the investors. This mechanism aims to protect the owners of capital from opportunistic dispositions [4-8] ensures that managers work to achieve the interests of the shareholder and stakeholders. As a result, corporate governance mechanisms and regulations have been given a considerable interest worldwide as they enhance the overall economic capability to achieve the overall public benefits to all the individual and organizational stakeholders [9-11]. It has been widely argued that due to poor practice of corporate governance in Gulf countries, regulations should be established to encourage companies to follow good practice. Regulators should reform corporate governance urgently in state-owned companies, which are the economics' major contributors of Gulf Cooperation Council (GCC). The reformation of corporate sector can be accelerated by requiring suppliers and private sector companies to apply the criteria of good governance [12] since these companies are also contributors. Generally, the corporate governance mechanism should be given more attention by government and companies to ensure high performance profile.

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In the specific context of Oman, the practices of corporate governance are reported to be weak and lacking in transparency and quality accounting which culminated in the country's financial crisis. The CG significance is evidenced by [13] who claimed that effective corporate governance often results in the enhancement in the performance of the company and its attractiveness to foreign investors which have been slow to improve in the recent years.

[14] added that board of directors should comprise of both external and internal directors. Internal directors have technical competencies and relevant knowledge of the firm, while external directors contribute to carrying out strategic decisions and they provide more effective management monitoring compared to internal directors [16]. In the same context, in the emerging markets, the board becomes important tools complementing for the inefficient external corporate governance mechanisms to alleviate conflict of interests amongst parties. Consistent with the above arguments, the board of directors is a main structural mechanism that minimizes opportunistic activities. As a control mechanism, the board is responsible to represent and defend the interests of the shareholders against managerial entrenchment [17, 18].

Therefore, the role of legal counsel in the firm is very essential to mitigate allegations of judicial nature. It expects to give a firm clear insight on the future contracts with investors and to solve any problems related to legal gaps. Company secretaries are the company's representative written in the legal documents and it is the secretary's responsibility to make sure that the company along with the directors are conducting company operations according to the law. Secretaries are also responsible for registering the company and communicating with shareholders, making sure that the dividends are paid and the records are maintained (lists of directors and shareholders and annual accounts).

This study focused on Oman (as emerging market) for many significant reasons. First, the majority of the previous studies dedicated to corporate governance and firm performance relationship have confined to developed economies. It appears that small economies including Oman are pretty much left out. It has been widely known that there is lack of studies investigating composition of board of directors generally in the Gulf countries and particularly in Oman firms, responsibilities of the board, sub-committees, the legal system in Oman and their effect on the Omani firms' practices [19-25]. Second, Muscat Securities Market (MSM) faced an extraordinary crash, which led CMA to the suspense of the trading of two firms namely, National Rice Mills SADGI and Omani National Investment Company Holding SAOG. These events created a serious question about the effectiveness of different monitoring devices that were presumed to protect investors' interests in Oman [26].

Based on above discussions, this study is going to achieve many objectives. First, it is going to bridge the gap in the existing literature to study the relationship between corporate governance and firm performance in emerging countries. Second, this study is of great value to contribute significantly to the body of knowledge by adding new variables such as board change, the role of secretary and legal counsel to the existed variables of the board of directors.Third, this study is to examine the relationship between boards of directors characteristics and firm performance in Oman that whereas, there is paucity of prior literature related to this relationship.

Literature Review and Hypotheses Development

Board of Directors Characteristics and Firm Performance: In this section, some mechanisms that play a vital role in board characteristics such as: board size, board composition and board meeting are discussed. These variables are very important in reflecting the performance of firms in the developing countries [17, 18]. Based on the prior studies concerning the association between board characteristics and firm performance, the findings are still inconclusive.Moreover, it includes some variables to the board structure including board changes, the role of secretary on the board, legal counsel and the executive committee characteristics. As a result, these variations are essential where it enhances performance and provides new insight and innovation. In the end, the next part reviews board characteristics namely, board size, board independence and board meeting.

Due to the weaknesses and severe shortages of relevant literature companies have been trying to improve the performance by improving the application of corporate governance in the Omani companies. This study was trying highly to bridge the gap in previous studies by examining some of the factors that is very important to improve and develop the application of corporate governance in the Omani companies in order to improve corporate performance. Resultantly, attracting new investors will help the country's economy to prosper. Therefore, it is very useful to add some variables to the board of director's characteristics such as board change, the role of secretary on the board and the legal counsel as follows.

Board Size and Firm Performance: The first important board characteristic is board size and it has along with its effect upon board effectiveness been extensively studied [27]. The board size refers to the number of directors on the board [1, 28-30]. The board of directors is the main internal governance mechanism responsible for monitoring executive decisions [1].

The effectiveness of corporate governance practice is a function of the board where it has a vital role to play in a company, as its function is to manage and direct the management [31, 17]. It also plays a monitoring role since a separation exists between ownership and control within the company [5]. Likewise, the board is also core to corporate governance mechanisms and is considered as the main mechanism that shareholders can employ to control top management [32]. In Oman, owing to the majority internal members of the board of directors, the authority enumerates points that are directed to achieve the firm target and aims. These roles help firms to protect shareholder wealth.

In empirical studies consistent to agency theory, there are many researchers around the world that investigated the relationship between board size and firm performance and they found there a negative relationship between board size and firm performance either in the developed or developing countries as follows in the tables:

Table 1.1: Summary of Previous Research that find to be a Negative Relationship between Board Size and Firm Performance

Authors and year	Location	Sample	Methods	DV
[28]	American and European	Public manufacturing firms. Over 2003 to 2005.	Truncated regression.	Technical efficiency
[80]	German	270 companies for the period of 2000-2006.	Regression.	Tobin-Q and ROA
[89]	UK	962 non-financial large firms that were listed on the UK Stock Exchange.	Multiple regressions.	Tobin-Q
In the developing countries				
[1]	Jordan	15 banks over 2007- 2009.	Multiple regressions.	ROE, ROA, PM and EPR
[77]	Malaysia	Family and non- family ownership of public-listed firms in Malaysia from 1999-2005.	Panel data regression.	Tobin-Q and ROE

This section explains another theory which is related to company's performance known as the resource dependence theory and it is related to board directors' size. The firm board size has been receiving increasing attention especially considering the failures of prominent businesses. The more number of board members, the more relations to the external environment exist to gather critical resources and information for decision making on corporate policies that will improve efficiency [33, 28].

Based on the discussions above concerning the importance and the role of the large size of the board, the current section mentions empirical studies around the world to support that large board size promote and improve firm performance. Hence, the relationship between board size and firm performance is positive according to the resource dependence theory perspective.

Table 1.2: Summary of Previous Research that revealed a Positive Relationship between Board Size and Firm Performance

Authors and year	Location	Sample	Methods	DV
[90]	Greek	257 firm poor operating performances in three consecutive years ending during 1996 to 2000.	Using panel.	ROA, ROE and Market-to-book ratio
[91]	US	113 observations (firm-years) during 2004 and 2006.	OLS regression.	Tobin-Q, ROA, ROE and NPM
[92]	US	354 firms that were during 1990 to 1993.	Regression analyses.	Book-to-market value ratio
In the developing countries				
[25]	Bahrain	5 insurance firms during 2005 2010.	E-views program and the method the Pooled data.	ROE
[93]	Pakistan	30 Pakistan listed firms between 2008 and 2009.	Multiple regressions.	ROE and NPM
[46]	Nigeria	10 firms of 51 firms and 2004 and 2008.	The simple linear regression.	ROE, NPM and DY

Finally, this section provides empirical studies who found no relationship (not significant) between board size and firm performance whether in developed countries or developing countries as provide;

Table 1.3: Summary of Previous Literature that found there is no Relationship between Board Size and Firm Performance

Authors and year	Location	Sample	Methods	DV
[74]	New Zealand	50 companies over 1999-2007.	OLS and 2SLS.	Tobin-Q, MP and ROA
[73]	France	665 firm-year observations covering 174 non -financial French companies from 28 industries over the period 2000-2004	Multiple regressions.	OCF, ROA and Tobin's Q
In the developing countries				
[21]	Saudia Arabia	135 firms which listed on Saudi Stock Market in 2011.	Multiple regressions.	Tobin's Q
[72]	Pakistan	This study selected 11 oil and gas firms listed on the Karachi stock exchange and this study chooses non-profitability just over 2004-2010.	Multiple regressions	NPM
[30]	Tunis	11 large Tunisian commercial banks during 1997-2006.	Both generalized least square (GLS) random effect (RE) and generalized method of moments (GMM) system approaches.	ROA and ROE

On the basis of the previous discussion and supporting arguments, the following hypotheses are developed;

H_1: There is a relationship between board size and firm performance.

Board Composition and Firm Performance: Board independence is another measure of board characteristics quality at the board level that has garnered significant attention. Generally, board composition is a critical element of corporate governance that contributes to overseeing firm performance as several studies have evidenced [34, 35]. Board composition is described as the number of independent non-executive directors having a seat on the board relative to the total number of directors [36,37]. An independent non-executive director refers to an independent director having no affiliation with the firm other than directorship [38]. In addition, regarding to an Omani code of corporate governance that the board has to have at least three persons is non-executive – specifically, the board should comprise of a majority of non-executive directors as board independence plays a key role in monitoring [39].

[14] claimed that external directors have reputations and social status to protect and these work as incentives in monitoring management and ensuring effective company running. Also, the board composition also assists in reducing agency problem and that shareholders should request that internal directors be replaced by external ones to achieve effective management monitoring [40, 41]. On the same token, [42] argued that external directors offer a more effective level of objectivity when assessing the firm's situation. Similarly, [43] contended that external directors are more effective when monitoring and acting as a disciplining mechanism for managers.

Advocates of the agency theory are convinced that corporate governance should result in higher stock prices or improved long-term performance as managers are monitored effectively and agency costs are minimized. Consistent to resource dependence theory, the external sources provide a firm with external channel to improve performance of the company. Moreover, an independent board allows board members to comprehend complex environments and give multiple knowledge and experience from different sources and in turn, improve firm performance [7].

Based on the above discussion concerning agency theory and resource dependence theory, both supports the contention that when the company should have more board independence to achieve improved performance. And hence, the relationship between board independent and firm performance should be positive as following;

Table 2.1: Summary of Previous Studies that got there is a Positive Association between Board Independence and Firm Performance

Authors and year	Location	Sample	Methods	DV
[94]	Mauritius	All 42 firms listed on the Stock Exchange of Mauritius over 2007.	Ordinary least squares regression	Performance
[95]	China	540 firm non-financial sectors which listed in Hong Kong Stock Exchange over 2001-2005.	Ordinary least squares fixed effects methods.	Tobin-Q
[96]	U.S	371 firms through 2000 to 2001.	Multiple regressions.	ROA and Tobin-Q
In the developing countries				
[1]	Jordan	15 banks in Jordan over 2007- 2009.	Multiple Regression	ROE, ROA, PM and EPR
[44]	Korea	1104 nonfinancial firms during 2005 to 2007.	OLS and 2SLS regressions.	Tobin-Q
[97]	India	Unlisted family owned firms. ROA and ROE	83 firms over from 2008 until 2010.	Panels Regression and GLS

Contrary to the agency theory and resource dependence, many empirical evidence around the world found a negative association between the board independence and firm performance as it provided below;

Table 2.2: *Summary of Prior Researcher that found there is a Negative Association between Board Independence and Firm Performance*

Authors and year	Location	Sample	Methods	DV
[98]	US	90 firms of 120 small to medium-sized firms.	General liner regression and logit regression analyses.	ROA, ROE, PR ratio and market return.
[80]	German	270 firms over 2000-2006.	Panel data	Tobin-Q and ROA
[24]	Saudia Arabia	102 non-financial firms in 2011	Multiple regression	ROA
[16]	Lebanese.	749 firms from Banks sectors that the period during 1992-2006.	OLS regressions.	ROA and ROE

Finally, some studies that investigated the relationship between board composition and firm performance discovered no relationship (insignificant) between board independent and firm performance whether in the developed or in the developing countries as following;

Table 2.3: *Summary of Previous Literature that find there is No Relationship between Board Independence and Firm Performance*

Authors and year	Location	Sample	Methods	DV
[68]	Norway	All non-financial companies listed on the Stock Exchange during 1989 to 2002.	Multiple regressions	ROA, Tobin`s Q and ROS
[78]	China	304 from 1271 firms listed on the Shanghai and Shenzhen Stock Exchange that it was selected during 2003.	Multivariate regression. This study was using SEM.	Tobin-Q
In the developing countries				
[21]	Saudia Arabia	135 firms which listed on Saudi Stock Market in 2011.	Multiple regressions.	Tobin's Q
[77]	Malaysia	Family and non- family ownership of public –listed firms in Malaysia from 1999-2005.	Panel data regression.	Tobin-Q, ROA and ROE
[79]	Malaysia	30 companies' random selection from construction and materials sectors just.	Multiple Regression	ROA and ROE

Based on the theoretical perspective and debate above, the following hypotheses are expressed:

H_2: There is a positive relationship between board composition and firm performance.

Board Meeting and Firm Performance: This section provides one of the vital board characteristics namely the board meeting. The board meeting represents the number of meetings the board has during a year. Regarding to the Omani code of corporate governance, the board shall have a meeting at least 4 times a year with a maximum of 4 months gap between two meetings.

The prior studies were focused to study two factors of board characteristics that is; board size and board independence but the current study will add board meetings (1, 44, 45,28, 46] as it has become so vital within companies. Board meetings are important because boards act on the behalf of the company and there is a method where the board acts collectively namely the passing of a resolution on board meetings. More meeting means more chances of considering different decisions by the boards and quickly reaching to final results [47].

Consistent to previous suggestions and the resource dependence theory as mentioned above, the relationship between board meetings and firm performance is expected to be positive. There have been studies in varying countries that found a positive association between board meetings and firm performance. This current study is unique as it discusses many studies done from developed countries and developing countries as it provide as follows;

Table 3.1: Summary of Prior Studies that find there is Positive Relationship between Board Meeting and Firm Performance

Authors and year	Location	Sample	Methods	DV
[49]	US	624 US listed and non-financial firms for the period of 1994-2003.	Multiple regressions analyses	Tobin-Q
[100]	Chain	461 publicly listed manufacturing firms in China between 1999 and 2002.	Regression analysis and Tobit regressions	firm efficient
In the developing countries				
[44]	Korea	1104 nonfinancial firms during 2005 to 2007.	OLS and 2SLS regressions.	Tobin-Q
[101]	Malaysia	520 companies during 2007.	Multiple regression	ROA

Additionally, [48] suggested that increased board activity is a response to poor performance which is in turn, is related with improved operating performance in the near future indicating the existence of a lag effect. On the other hand, [49] suggested that boards have to balance the frequency costs and benefits. Another point of view came from [50] who claimed that the board meeting frequency is secondary to its quality.

Based on the above discussion, there is supposed to be a negative relationship between frequency of board meetings and firm performance. However, there are limited studies in the developed countries and the developing countries revealing this negative relation.

Table 3.2: Summary of Previous Studies that find there is a Negative Relationship between Board Meeting and Firm Performance

Authors and year	Location	Sample	Methods	DV
[102]	Spain	116 non-financial firms during 2004-2006.	The truncated Regressions.	Technical efficiency
[103]	China	1192 firms from the all 1262 listed firms in both Shenzhen and Shanghai Stock Exchange during 2003.	Multiple regressions.	financial reporting quality In the developing countries
[83]	Malaysia	162 non-financial firms through 2006 and 2008.	Multiple regressions.	ROA
[101]	Malaysia	520 companies during 2007	Multiple regression	Tobin` Q

Finally, away from the proponents and perspective of agency theory and resource dependence theory, researchers investigated the board meeting and firm performance in general. Their result revealed no relationship (insignificant) between the two;

Table 3.3: Summary of Previous Literature that revealed there is Not Relationship between Board Meeting and Firm Performance

Authors and year	Location	Sample	Methods	DV
In the developing countries				
[83]	Malaysia	162 non-financial firms through 2006 and 2008.	Multiple regressions.	ROA
[82]	Africa	103 listed firms drawn from Ghana, South Africa, Nigeria and Kenya cover the five year period 1997-2000.	Regressions.	ROA and Tobin-Q

Based on the above discussion, it is reasonable to hypothesize the following hypotheses.

H_3: There is a relationship between the number board meeting and firm performance.

CEO Tenure and Firm Performance: The CEO tenure is a critically important construct for research relating to the organization and executive leadership [51, 52]. Moreover, CEO tenure is always associated with quality of leadership and power [51, 53].

Under resource dependence theory, the longer time that a member stays in the job position, the more experience and knowledge he/she will gain [54] and CEOs with long tenure tend to contribute higher level of information concerning governance practices as the firm's performance increase.

There are limited researches that investigated the relationship between CEO tenure and firm performance in the developed countries and found a positive relationship.

Table 4.1: Summary of Prior Studies that find there is Positive Relationship between CEO Tenure and Firm Performance

Authors and year	Location	Sample	Methods	DV
[35]	Greek	27 chairmen of 161 Greek corporations listed in the Athens Stock Exchange (ASE).		ROA
[52]	US	495 firms.		Firm performance
In the developing countries				
[51]	Indonesia	Seventy-three large public firms from 100 largest companies over 2005-2007.	Panel data regression techniques.	ROA
[82]	Africa	103 listed firms drawn from Ghana, South Africa, Nigeria and Kenya covering the five year period 1997-2001.	Regressions.	ROA

Consistent with the agency theory, CEOs with longer tenure will reduce the disclosures about corporate governance practices because they feel they have the power and are less monitored by the board of commissioners [53]. Within the same field, the new CEO discloses more information in order to steer clear of developing the perception that the CEOs are satisfying their own personal interests.

Regarding agency theory, its advocates related that the relationship between CEO tenure and firm performance should be negative. More notable is the fact that there is a very limited researches that investigated the relationship between CEO tenure and firm performance in the developed countries.

Table 4.2: Summary of Previous Literature Review is which find there is Negative Relationship between CEO Tenure and Firm Performance

Authors and year	Location	Sample	Methods	DV
[104]	UK	358 firms that the period of study was during 1998-2001.	Multiple regressions.	ROA
[105]	Swedish	All non-financial companies which were listed on the Finish Stock Exchange during 1993 to 2000.	Logit and tobit regression.	Market-to-book
In the developing countries				
[22]	Kuwait	136 non-financial	Multiple regression	ROA
[51]	Indonesia	Seventy-three large public firms from 100 largest companies during 2005-2007.	Panel data and regression techniques.	Tobin- Q

In conclusion, from a general perspective, a relationship (insignificant) exists between CEO tenure and firm performance;

Table 4.3: Summary of Previous Researchers that find There is Not Relationship between CEO Tenure and Firm Performance

Authors and year	Location	Sample	Methods	DV
[81]	China	578 firms that were listed in Chines Stock Exchange during 1998 to 2002.	Cross-sectional multinomial and logistic regression	ROA, ROS, GRO, RET and LOSS
[84]	Brazil, Chile, India, Korea, Malaysia, Mexico, Taiwan and Thailand.	1200 firms in eight countries over from 1993 to 1997.	Logit regression.	Earning market measurement
In the developing countries				
[82]	Africa	103 listed firms drawn from Ghana, South Africa, Nigeria and Kenya covering the five year period 1997-2001.	Regressions.	Tobin-Q

Hence, the following hypnosis's are reasonably introduced for further empirical tests:

H_4: There is a relationship between CEO tenure and firm performance.

The CEO Compensation and Firm Performance: The current focus is to provide directors attractive compensation packages linking to the firm performance [55, 56]. The linkage between director compensation and firm performance seems realistic as directors are eventually held responsible for the performance of the firm [57, 58]. Several researchers have concentrated on the effect of executive compensation on company performance as the standard agency theory model postulates that management reward incentives are linked to the performance of the firm [5].

Under agency theory, it has been proposed by [5] that there is a presence of an inherent struggle between shareholders hiring managers as agents to maximize their wealth and managers' incentives to increase personal wealth through consumption of perquisites. It is necessary to find compensation and rewards for employees within the company to motivate employees to work effectively in a competitive environment within the company itself. The company must develop mechanisms and policies that are clear to all within the company and criteria have to be satisfied in order to ensure that the work will be of high quality and without bias [59, 60].

Now, this study provided much evidence that much have been done to examine the association between CEO compensation and firm performance in the developed nation as follows;

Table 5.1: Summary of Previous Researchers that reveal there is a Positive Association Between CEO Compensation and Firm Performance

Authors and year	Location	Sample	Methods	DV
[87]	US	S&P 500 firms, period of 1992-2008.	Regression	ROA, MB, EPS and Return.
[86]	US	350 large manufacturing companies during 1991, 1994, 1997 and 2000.	Multiple regression	R&D investment
[88]	U.S.	All Fortune 500 companies the period of this study was during 2000 to 2005.	Panel data.	ROA
In the developing country				
[99]	Taiwan	1175 companies during 2004 to 2006.	multiple regressions	ROA, ROE, EPS andTobin-Q
[85]	Bangladesh	All listed financial and non-financial that was listed on Dhaka Stock Exchange. The sample was based on 723 companies covering 8 years from 1995 to 2002.	SLS regression.	Market-to-book value

On the other hand, the more recent financial scandals stemming from accounting frauds and earnings management in prominent companies including Enron, WorldCom and Adelphia were mainly associated with top executives behaviour along with the excessive risk taking that fails to serve the best interest of the firm's stakeholders and shareholders [39]. Higher pay to managers eats up the earnings comprising of investors' money which makes it an issue of corporate governance. More importantly, CEO termination leaves an adverse impact upon future potential earnings and hence CEOs often requests for insurance against the lack of job security through their demands of greater compensation in riskier firms (Hill &Phan, 1991).

Regarding previous findings, the relationship between CEO compensation and firm performance should be negative. So, this current study provides some studies done to investigate the relationship between CEO compensation and firm performance in both developed countries and developing nations as provide in below table;

Table 5.2: Summary of Previous Studies that find there is a Negative Relationship between CEO Compensation and Firm Performance

Authors and year	Location	Sample	Methods	DV
[96]	U.S	371 firms through 2000 to 2001.	Multiple regressions.	ROA and Tobin-Q
[107]	US	400 companies that the period of study was during 2001.	Logistic regression	Performance
In the developing countries				
[106]	Taiwan	Family firms covering the 2000 to 2005.	Pooled regressions and fixed effect regressions.	Sales, ROA, cash flow, stock return, advertising, debt and PPE
[85]	Bangladesh	All listed financial and non-financial that was listed on Dhaka Stock Exchange. The sample was based on 723 companies covering 8 years from 1995 to 2002.	SLS regression.	Market-to-book value

Finally, there are also some researchers who revealed no relationship (insignificant) between CEO compensation and firm performance such as, [34]. For more details refer back to the below Table 5.3.

Table 5.3: Summary of Previous Literature that finds there is Not Relationship between CEO Compensation and Firm Performance

Authors and year	Location	Sample	Methods	DV
[34]	Canada	270 firms through 2002.	The regression.	ROI, ROE, EPS and market-to-book ratio

Therefore, the following hypotheses are proposed to be empirically tested.

H_5: There is a positive relationship between CEO compensation and firm performance.

Board Change and Firm Performance: According to [15] board of directors is recognized as an invaluable mechanism to monitor management performance and to protect the interests of shareholders. Board change, on the other hand, refers to the appointment of a new member of the board in a year [61].

In the context of Oman, the board of directors' role in corporate governance is crucial. Theoretically, the responsibility of making sure that firms are managed properly lies in the hands of the shareholders but owing to the separation of ownership and control in almost all major business enterprises, the responsibility of ensuring that top managers carry out their duties in an effective and efficient manner rests in the board of directors. The board is responsible for acting in the shareholders' and stakeholders' interests [62].

To date, there is no study that investigated the relationship between board change and firm performance in the developing countries including Oman. Hence, the present study contributes two elements; it provides firm performance effects of board changes in Oman and second, it is the pioneering study that tests the relationship between board change and firm performance.

The significance of board change lies in the introduction of new blood to the board of directors with guaranteed addition of experience and knowledge and new insight with higher motivation. This present study is going to fill this gap and considers testing this variable with firm performance.

In the context of Kuwait, [22] examined the relationship between board characteristics and firm performance in companies of Kuwaiti listed companies. They encouraged future researchers to study some variables such as the board change on firm performance. From this recommendation, the current study is first study to examine the association between board change with firm performance and expects that board change and the executive committee characteristics improve performance of companies.

Finally, the importance of the board change is that it gives a new blood to the directors with consistent multiple experiences and knowledge and new thinking with more motivation. This present study is going to fill the existing gap and consider testing this variable with firm performance. Based on the previous argument and others supporting argument, the following hypotheses are formulated:

H_6: There is a relationship between the board change and firm performance.

The Role of the Secretary on the Board and Firm Performance: The role of secretary on the board is crucial in the board and is measured by using a dummy variable. The secretary primarily occupies a senior position in a private sector company or public sector organization in the position of a manager or above [63]. In majority of American and Canadian publicly listed companies, the company secretary is referred to as the corporate secretary or the secretary. The company secretary's responsibility includes the efficient administration of the company, in terms of guaranteeing company compliance with statutory and regulatory requirements and guaranteeing that the board of directors' decisions are implemented (general theory). This study expected that the secretary role improves firm performance through arrangement of board tasks.

Regarding the agency theory, the separation of two positions in the company helps improve and safeguard the rights of shareholders [5]. From the perspective of resource dependence theory, the separation of two positions in the company may not be assisting the improvement of shareholder value [64]. The current study supposes that the role of secretary on the board improves firm performance.

In general, this current study recommends that regulators develop the code of corporate governance to improve in order to match the global codes corporate governance, which have a primary target of attracting significant numbers of investors everywhere and ensure them to come and invest their money without concern for future crisis. As well as, the role of secretary on the board include arranging all board`s tasks, providing a clear picture about what they discussed and what they should do. The current study considers the importance of this variable on board structure. Also, consistent to the recommendation of [21], it is important to study the role of the secretary on the board in firm performance.

Based on the theoretical and previous discussion, the following hypotheses are reasonable to be proposed for further empirical investigation.

H_7: There is a relationship between the role of secretary on the board and firm performance.

The Legal Counsel and Firm Performance: In this point, although the importance of the legal counsel in a firm is evident as to ensure and give insurance of investors and solve problems of judicial allegations that a firm may face during its operation period, no mention is made of the role of this function in the Omani code of corporate governance. Moreover, one season of poor performance displayed by the Omani companies may be attributed to the lack of this function in Omani Code. Therefore, the regulators must adopt this function and highlight its significance in the code of corporate governance in Oman if the country is desirous of attracting both local and foreign investments. Also, the administrators must add this function and highlight its significance to be at par with the global code of corporate governance. As it known, these days are very important and very critical to lose or win investors around the world because the world is like a small village. A company may conduct business from anywhere around the globe which calls for the establishment of regulators and laws to keep businesses in track.

In the context of resource dependence theory, the outsource will give a firm a lot of experience and knowledge to deal with the transaction experienced during the life cycle [65].Then, the legal counsel motivates firms to stay on the right track all the time without any problems with all interested members. With regards to Omani code, the firm should have legal counsel to revise any deeds relative to legal matters for example, formulation of contracts, revision of legal code inside firms, organizing the relationship between the firm and investors, solving any problem faced by the firm at any time whether local or foreign. It tries to plead for the company in light of the presence of the company's rights to third parties and others.

The legal profession influences upon board structure is still largely undiscovered. Initiatives for investigation have been launched but questions concerning what constitute board composition and its influence on the board structure are still unclear [66]. The present study employs legal counsel whether or not the firm has legal counsel and measures legal counsel by a dummy variable.

Based on previous argument and supporting ones, the following hypotheses are proposed to be empirically tested;

H_8: There is a relationship between the legal counsel and firm performance.

Research Method and the Study Models: This study selected all the non-financial firms comprising of 81 firms during 2011 and 2012 and it excluded financial firms (banks) because of their structure, methods and the accounting practices that differ substantially from non-financial firms [67, 68]. The data of the current study comes from the annual reports of firms from the Muscat Securities Market (MSM) website (2012).

The firm performance was measure by ROA because the profit measure has been critiqued as backward-looking and only partially estimating future events through depreciation and amortization. The rate of profit is gauged by the accountant, limited by standards laid down by the profession and hence, it is impacted by the accounting practices, including various methods employed in the assessment of both tangible and intangible assets [69]. The 8 corporate governance variables namely, board size (BOARDSIZE), board independence (BORADIN), board meeting (BOARDME), CEO Tenure (CEOTENU), CEO compensation (CEOCOM), board change (BOARDCH), role of secretary (SECRETA), legal counsel (LEGALCO) and two control variables (LEGALCO), firm size (FIRMSIZE), leverage (LEVERAG) were studied. Table 6offers variables measurement summary.

The effect of the board director characteristics namely, board size, board independence board meeting, CEO Tenure, CEO compensation, board change, role of secretary, legal counsel and two control variables (LEGALCO) wereexamined by using the following model:

$$ROA=\boldsymbol{\alpha 0}+\boldsymbol{\beta 1}*BOARDSIZE+\boldsymbol{\beta 2}*BORADIN+\boldsymbol{\beta 3}*BOARDME+\boldsymbol{\beta 4}*CEOTENU+\boldsymbol{\beta 5}*CEOCOM+\boldsymbol{\beta 6}*BOARDCH+\boldsymbol{\beta 7}*SECRETA+\boldsymbol{\beta 8}*LEGALCO+ +\boldsymbol{\beta 9}*FIRMSIZE +\boldsymbol{\beta 10}*LEVERAG + \boldsymbol{\varepsilon}$$

Where:
α0 – Constant
ROA: Return on Assets
BOARDSIZE: The Board Size
BORADIN: The Board Independence
BOARDME: The Board Meeting
CEOTENU: CEO Tenure
CEOCOM: CEO Compensation
BOARDCH: The Board Changes
SECRETA: The Secretary Role on the Board
LEGALCO: The Legal Counsel
FIRMSIZE: Firm Size
LEVERAG: Leverage
ε: Error term

Table 6: Summary of Variables Measurement

N0	VARIABLES	ACRONYM	OPERATIONALISATION
Dependent Variables (DV)			
1	Return On Assets ratio (%)	ROA	Earnings before tax divided by total assets of the company.
2	Board Size (number)	BOARDSIZE	Total number of directors serving on the board of directors.
3	Board Composition (%)	BORADIN	The number of independent non-executive directors on the board relative to the total number of directors.
4	Board Meeting (number)	BOARDME	The frequency number of meetings during a year for the board directors.
5	CEO Tenure (year)	CEOTENU	The period of CEO's serving in the company.
6	CEO Compensation (RO)	CEOCOM	The total CEO compensation is the sum of the total. Cash compensation that includes salaries, bonuses and perquisites.
7	Board Change	BOARDCH	Dummy variable I if the board has a new appointment during a year and 0 others.
8	The Secretary on the Board	SECRETA	Dummy variable I if the board has a secretary and 0 others.
9	The Legal Counsel	LEGALCO	Dummy variable I if I if the firm has the legal counsel and 0 others.
Control Variables (CV)			
10	Firm Size (number)	FIRMSIZE	The natural log of total assets.
11	Leverage (%)	LEVERAG	The ratio of total liabilities to total assets.

Data Analysis and Results: The collected data will be analysed with the use of IBM SPSS for the purpose of describing the data and testing the hypothesised relationships.

Descriptive Statistic: Table 7 show the descriptive statistics of the continuous variables. The descriptive statistics include mean, standard deviation, minimum and maximum which were computed using SPSS version 19.

Correlation Analysis: Table 8 offers a summary of the results from the correlation analysis. The findings revealed that the correlations are lower than 0.80, which meets [70] contention that the correlation matrix should not go higher than 0.80 to ensure the absence of multicollinearity issue. The tolerance values of the present study's variables are presented in Table 9 and they ranged between 0.343and 0.844 while the VIF values ranged between 1.185 and 2.915indicating that all the tolerance values were higher than 0.1 and VIF below the threshold of 10 as recommended by [71]. Stated differently, both the tolerance and VIF values of the variables are within the recommended range. It can thus be concluded that the multicollinearity issue is non-existent.

Multiple Liner Regression Analysis: Multiple regression analysis is used to establish the relationship among independent variables and the dependent variable and to identify the direction of the relationship. It reflects the level to which a set of variables is capable of predicting a specific outcome. It is also a multivariate statistical method that can be utilized to investigate the relationship between independent variables and a single dependent variable. Data was first examined to meet the many multivariate assumptions prior to running multiple regression analysis and to establish the reliability of the conclusions drawn. The primary assumptions that were examined prior to the regression analysis include linearity, normality, homoscedasticity and independence of the error terms. Prior to assumptions testing, the study investigated the presence of multicollinearity and outliers.

Table 7: Descriptive Statistics of Continuous Variables

Variables	Unit	Mean	Std. Deviation	Min	Max
Board Size (BOARDSIZE)	Number	7.10	1.52	5.00	12.00
Board independence (BORADIN)	Ratio	0.88	0.19	0.00	1.00
Board Meeting (BOARDME)	Number	5.65	1.93	.00	15.00
CEO TENURE (CEOTENU)	Years	10.12	2.81	3.00	20.00
CEO Compensation (CEOCOM)	OR	56758.31	43853.15	7785.00	239423.00
FIRM SIZE (FIRMSIZE)	OR	62979251.03	125657047.90	605320.00	685377000.00
LEVERAGE (LEVERAG)	Ratio	0.49	0.28	0.02	1.72
Return On Assets (ROA)	Ratio	0.06	0.10	-0.34	0.32

Table 8: Results of Pearson Correlation Analysis

	1	2	3	4	5	6	7	8
1) BOARDSIZE								
2) BORADIN	-.038							
3) BOARDME	.036	.135*						
4) CEOTENU	-.063	-.162**	.099					
5) CEOCOM	.255***	-.011	.130*	.162**				
6) FIRMSIZE	.321***	-.046	.070	.129	.583***			
7) LEVERAG	-.088	-.024	-.059	.134*	.032	-.062		
8) ROA	.152*	-.085	.072	.043	.305***	.257***	-.451***	

Notes:

***Correlation is significant at the 0.01 level (2- tailed).

**Correlation is significant at the 0.05 level (2- tailed).

*Correlation is significant at the 0.1 level (2- tailed).

Table 9: Multicollinearity Test

Variables	Tolerance Value	VIF
Board Size (BOARDSIZE)	.852	1.174
Board independence (BORADIN)	.878	1.139
Board Meeting (BOARDME)	.930	1.076
CEO TENURE (CEOTENU)	.888	1.126
CEO Compensation (CEOCOM)	.633	1.579
Board Change (BOARDCH)	.908	1.101
Secretary (SECRETA)	.856	1.168
Legal Counsel (LEGALCO)	.871	1.148
FIRM SIZE (FIRMSIZE)	.613	1.632
LEVERAGE (LEVERAG)	.909	1.100

Regression Results of Model (Based on Accounting Measure): In the Table 10 show that the results of the regression analysis regarding to ROA. The value of R2 in this model is 0.327. This means that the model explains 33 percent of the variance in firm performance as measured by ROA. This is considered as a respectable result. The adjusted coefficient of determination (R2) indicates that 0.283 per cent of the variation in the dependent variable is explained by the variations in the independent variables. This means that the variation in firm performance as measured by ROA was statistically explained or accounted for by the regression equation. Also, the results in Table 10 show that this model is significant since F value is significant ($F=7.348$, $p<0.01$) indicating the validity of the model used.

Durbin-Watson (DW) test is employed as a statistical test to detect autocorrelation. As a rule of thumb, Durbin-Watson should be within the acceptable range of 1.5 to 2.5. Table 5 shows the result of the autocorrelation test, in which the Durbin-Watson value of 2.060 falls in the acceptable range of 1.5 to 2.5, indicating independence of observations.

The resulted indicate that hypothesis H1is not supported. The result shows that board size did not contribute is improving performance. Results presented in Table 10 provide support for prior studies that reported no relationship between the board size and ROA whether in the developed countries or in the developing countries such as [22, 72,73, 30,74]. The non-significant effect of board size on ROA can be discussed in the light of the following plausible justifications. A large board size does not translate to the fact that majority of board members represent the stakeholders' interests [75] and in the same manner, the board size does not reflect its effectiveness. A board with sufficient experience and knowledge should ensure board effectiveness [76]. Moreover, the hypothesis H2 is not supported that this finding is similar with previous studies that were conducted like [22, 68,77-79]. One possible explanation of the no significant relationship between board independence and ROA is the major actions adopted by the board. The non-relationship between the outside directors share and company performance would support signalling theory. Owing to the poor company performance, outside directors are appointed by management or controlling shareholders to enhance performance with the help of professional competencies of directors and to relay a positive signal to firm investors (high outside directors share is deemed as the best corporate governance practices) [80, 81].

The finding as apparent in Table 10, revealed that board meeting has an insignificant relationship with ROA. The result of the insignificant relationship between board meeting and ROA is similar to prior studies results that found no association between board meeting and ROA like [82, 83]. One plausible justification of insignificant relationship between board meeting and ROA is that board meeting is not necessarily a reflection of improved firm performance and more often than not, frequency of board meetings increases when problems arise [27].

The result as apparent in Table 10, found that CEO tenure has a positive but insignificant association with ROA. The insignificant relationship between CEO tenure and ROA were similar to a study of [81, 84, 82]. One of the possible explanations of the lack of association between CEO tenure and ROA is that CEOs may create negative impacts, including isolation from external markets and unfeasible information-filtering, which may lead to inverted relationship between CEO tenure and customer relations. Similarly, long-tenured CEOs may partially imply that some CEOs that are effective motivators may not be effective strategists.

The hypothesis H5 is supported. The result of this variable is similar to prior studies that found a positive significant linkage in developed countries such as [85,86,87,39,88]. The likely description for the positive significant association between CEO compensation and ROA is that it is necessary to get compensation and rewards for employees within the company in order to motivate them to work effectively in a competitive environment within the company itself. The company must develop clear mechanisms and policies within the company and criteria have to be fulfilled in order to ensure that work is of high quality and without bias [59,60].

The hypoesis H6 in not supported. The insignificant relationship between board change and ROA may be due to poor recruiting policy when it comes to appointing certified persons. Therefore it requires the appointment of competent people who are able to improve the performance of the company through their experiences and their close contact with the market. It can also be attributed to the strong control of chairman over the board which prevents others in the board to innovate and create something that could help improve firm performance.

The finding, as apparent in Table 10, found no significant association between the role of secretary on the board and ROA. Therefore, H7a is not supported. Among the reasons which could justify the insignificant relationship between secretary of the board's role and ROA is that, this variable is probably not mandated for all listed companies, which could lead to poor results. Consequently, the regulators must give encouragement to all listed companies to understand the role of secretary of the board and provide clear insights.

The result, as apparent in Table 10, is in conflict with this expectation. This relationship was found to be insignificant and therefore, H8a is not supported. Another reason to justify the non-significant relationship between legal counsel and ROA is the possibility of the absence of limited policy in selecting professional legal counsel in the market to handle major problems and enhance the performance of the company. Therefore, the capital market authority must highlight the role of the legal counsel in firms.

Based on the regression results the model equation is ROA= -0.186+ 0.057* CEO Compensation (CEOCOM) - 0.186* LEVERAGE (LEVERAG).

Table 10: Regression Results of Model (Dependent= ROA)

	Standardized Coefficients		
Variables	Beta	t-value	Sig.
Board Size (BOARDSIZE)	0.032	0.448	0.655
Board independence (BORADIN)	-0.086	-1.202	0.231
Board Meeting (BOARDME)	0.002	0.028	0.978
CEO TENURE (CEOTENU)	0.046	0.656	0.513
CEO Compensation (CEOCOM)	0.273	3.254	0.001
Board Change (BOARDCH)	0.035	0.503	0.616
Secretary (SECRETA)	-0.080	-1.104	0.271
Legal Counsel (LEGALCO)	0.074	1.035	0.302
FIRM SIZE (FIRMSIZE)	0.060	0.699	0.485
LEVERAGE (LEVERAG)	-0.483	-6.904	0.000
R2			0.327
Adjusted R2			0.283
F-value			7.348
F-Significant			0.000
Durbin Watson statistics			2.060

CONCLUSION

This study examined the relationship between corporate governance mechanisms namely board of directors characteristics (board size, board independence, board meeting, CEO tenure, CEO compensation, board change, the role of secretary on the board and legal counsel) and firm performance (ROA) of the public listed companies in Oman Stock Exchange. More specifically, as mentioned earlier, the study's motivation lies in the gap in extant literature and few evidence in the context of developing countries, particularly in Oman. This study enhances the understanding of corporate governance characteristics influencing firm performance, especially with the unique culture and business environment in Oman.

Although Oman has unique investment environment to encourage both local and foreign to invest without conditions in advance, the results did not totally support the hypotheses. This may be attributed to the lack of good practical implications in some companies. Therefore, government representative in stock market authority should follow up all companies to apply code of corporate governance. Also, stock market authority must update the code till it becomes consistent with global code of corporate governance in order to develop performance.

The resource dependence theory is more applicable to most Omani businesses, as the board diversity facilitates the enhancement of performance through diversity of members such as experience, qualification, foreign and others. This study proved that the agency theory is not applicable in the Omani environment. Although corporate governance is practiced by Omani companies, further improvements are still needed to strengthen Omani them.

Limitations and Suggestions for Future Research: This study, like previous studies has limitations, which are discussed in this section. First, the research design employed in the study is limited to listed companies in the Muscat Stock Exchange with emphasis on non-financial firms and exclusion of financial and non-listed companies. Hence, the outcome's validation may not be appropriate for financial and non-listed companies. Making generalization which is applicable to all sectors should therefore be made with caution. This study considered two years 2011 and 2012 and this short period of this study may not reflect all operations of the sample companies. So, future researchers should consider the extension of this period and to all sectors.Second, this study examined integrations between board director characteristics namely board of directors characteristics (board size, board independence, board meeting, CEO tenure, CEO compensation, board change, the role of secretary on the board and legal counsel). This study's limitation also derives from the nature of data gathering; in Oman, annual reports of listed companies are limited compared to their counterparts in other countries. This study recommends that future researcher examine some variables' significant relationship to corporate governance such as ownership structure, purchase committee, remuneration committee, audit committee characteristics (size, independence, meeting) and executive committee characteristics (size, independence, meeting) and other committees' relevance to evaluate performance of the company.

Third, this study examined some variables related to board of directors' characteristics namely size, independence, meeting CEO tenure, CEO compensation, board change, the role of secretary on the board and legal counsel. However, future studies must consider taking into account some important variables like meeting attendance and remuneration, attending annual general meeting, board members remuneration, the participation of members of the board of directors on the boards of other companies and other variables' significant role in improving firm performance.Fourth, this study considered one proxy of performance such as ROA and thus future researchers may consider investigating the relationship between corporate governance with other proxies like Tobin`s Q, Return on Equity (ROE), Return on Sales (ROS), Return on Investment (ROI) and others in order to enhance performance both in the long and short term.

Fifth, this study only examined the agency theory, resource dependence theory and tournament theory. On the other hand, future studies could extensively examine the tournament theory with firm performance because there is a lack of studies in this field. Future studies could also examine relationship between corporate governance and firm performance in light of other theories such as stewardship theory, institutional theory, stakeholder theory, transaction cost theory, political theory, ethical theories, tournament theory, etc.Finally, this study just examined directly the relationship between board direct characteristics and firm performance so that, the future research could be considered to investigate this relationship through other variables like board diversity, compensation, Islamic perspective and others in order to enhance this relation.

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