EFFECTS OF CORPORATE GOVERNANCE ON INVESTMENT EFFICIENCY AND FIRM VALUE: THE CASE OF PUBLICLY LISTED COMPANIES IN GULF COOPERATION COUNCIL (GCC) COUNTRIES

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by

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LIST OF ABBREVIATIONS

ADX:	Abu Dhabi Stock Exchange
ASX:	Australian Stock Exchange
CG:	Corporate Governance
CSR:	Capital Standards Rating Agency in Kuwait
DFM:	Dubai Financial Market
DS:	Data Stream
EBIT:	Earnings before Interest and Tax
FIFA:	Federation Internationale de Football Association
GAAP:	Generally Accepted Accounting Principles
GCC:	Gulf Cooperation Council
GCGF:	Global Corporate Governance Forum
GDP:	Gross Domestic Product
HAWKAMAH:	Institute of Corporate Governance in the GCC Countries
IASB:	International Accounting Standards Board
IFC:	International Finance Corporation
IIF:	Institute of International Finance
IMF:	International Monetary Funds
IN-EFF.- INV:	Inefficient Investment
SAUDI:	Kingdom of Saudi Arabia
MENA:	Middle East and North Africa Companies
MSCI:	Morgan Stanley Capital International
MSM:	Muscat Securities Market, Oman
OECD:	Organization for Economic Cooperation and Development
OLS:	Ordinary Least Squares
OPEC:	Organization of the Petroleum Exporting Countries
PPE:	Properties, Plant, and Equipment
SACMA:	Saudi Arabian Capital Market Authority
SCA:	The Emirates Securities and Commodities Authorities
TASI:	Tadawul All Share Index in Saudi Arabia

UAE: United Arab Emirates

UK: United Kingdom

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Appendix A Corporate Governance (CG) quality individual components and sub items

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KESAN TADBIR URUS KORPORAT KE ATAS KECEKAPAN PELABURAN DAN NILAI FIRMA: KES SYARIKAT TERSENARAI AWAM DALAM MAJLIS KERJASAMA NEGARA-NEGARA ARAB TELUK (GCC)

ABSTRAK

Kajian ini menguji pengaruh kualiti tadbir urus korporat terhadap kecekapan pelaburan dan nilai firma di enam negara-negara Teluk Arab, yang biasanya dikenali sebagai Majlis Kerjasama Teluk (GCC). Enam negara anggota ialah Emiriah Arab Bersatu, Bahrain, Kerajaan Arab Saudi, Kesultanan Oman, Qatar, dan Kuwait. Pertama, kajian ini membangunkan model kualiti tadbir urus korporat yang merangkumi 60 item di bawah lima elemen penzahiran tadbir urus korporat utama; tanggungjawab lembaga; komposisi berkesan lembaga ; hak pemegang saham dan peranan pihak berkepentingan dalam tadbir urus korporat bagi setiap negara. Kedua, kajian ini mengkaji kesan kualiti tadbir urus korporat ke atas kecekapan pelaburan dan nilai firma. Kecekapan pelaburan sebagai pembolehubah bersandar diukur dengan sisihan daripada tahap jangkaan pelaburan firma, manakala nilai firma diukur dengan Tobin's Q. Akhir sekali, kajian ini mengkaji kesan penumpuan pemilikan terhadap hubungan antara kualiti tadbir urus korporat dan nilai firma. Sampel kajian termasuk 301 firma tersenarai awam di negara GCC untuk tempoh 2015-2020 diguna pakai dalam kajian ini. Dengan menggunakan analisis statistik regresi berganda, penemuan menunjukkan bahawa tahap kualiti tadbir urus korporat berbeza mengikut syarikat dan negara. Kajian itu juga menunjukkan bukti signifikan secara statistik bahawa kualiti tadbir urus korporat meningkatkan nilai pasaran firma dan kecekapan pelaburan dengan mengurangkan kedua-dua terlebih dan terkurang

pelaburan. Selain itu, penemuan penyelidikan mendedahkan bahawa elemen utama kualiti tadbir urus korporat mempunyai tahap kesan yang berbeza terhadap kecekapan pelaburan. Tanggungjawab lembaga pengarah mempunyai kesan positif tertinggi, diikuti oleh, hak pemegang kepentingan, dan kebebasan lembaga masing-masing.Pendedahan dan saiz lembaga pula menunjukkan kesan negatif. Keputusan juga menunjukkan bahawa hubungan antara kualiti tadbir urus korporat dan nilai firma dipengaruhi secara negatif oleh penumpuan pemilikan, yang bermaksud bahawa penambahan nilai kualiti tadbir urus korporat tidak sentiasa dikekalkan pada tahap penumpuan pemilikan yang tinggi. Kajian ini bertujuan untuk menekankan kepentingan kualiti tadbir urus korporat kepada semua pihak berkepentingan, pengawal selia dan penggubal dasar di rantau Majlis Kerjasama Teluk (GCC); dan untuk melihat bagaimana peraturan tadbir urus korporat baharu di rantau Teluk telah menjejaskan kecekapan pelaburan dan nilai firma. Penyelidikan ini secara teorinya telah menyumbang kepada literatur tadbir urus korporat mengenai indeks tadbir urus korporat, penarafan dan kualiti dengan mencadangkan model kualiti tadbir urus korporat yang mempertimbangkan semua pihak berkepentingan. Implikasi praktikal kajian menekankan kepentingan kualiti tadbir urus korporat sebagai pemacu kecekapan pelaburan dan nilai firma; syarikat dijangka mengurus sumber dengan berkesan, dan pengawal selia boleh menggunakan model kualiti tadbir urus korporat yang dibina untuk menggubal dasar yang meningkatkan amalan tadbir urus korporat di rantau ini.

EFFECTS OF CORPORATE GOVERNANCE ON INVESTMENT EFFICIENCY AND FIRM VALUE: THE CASE OF PUBLICLY LISTED COMPANIES IN GULF COOPERATION COUNCIL (GCC) COUNTRIES

ABSTRACT

This study investigates the effect of corporate governance quality on investment efficiency and firm value in the six Arab Gulf countries, commonly known as Gulf Cooperation Council (GCC). The six member countries are United Arab Emirates, Bahrain, Kingdom of Saudi Arabia, Sultanate of Oman, Qatar, and Kuwait. first, the study developed a corporate governance quality model comprises 60 items under five main corporate governance elements of disclosure; responsibilities of the board; board effective composition; rights of shareholders and the role of stakeholders in corporate governance for each country. Secondly, the study examined the effect of corporate governance quality on investment efficiency and firm value. Investment efficiency as the dependent variable is measured by the deviation from firm's expected level of investment, while firm's value is measured by Tobin's Q. Lastly, the study examined the impact of ownership concentration on the relationship between corporate governance quality and firm value. The study sample includes 301 publicly listed firms in the GCC countries for the period 2015-2020. Using multiple regression statistical analyses, the findings indicated that corporate governance quality levels vary by company. The study also shows statistically significant evidence that corporate governance quality improves firm market value and investment efficiency by mitigating both over and underinvestment. Moreover, the research findings revealed that corporate governance quality key elements have varying

effects on investment efficiency. Board responsibilities have the highest positive effect, followed by stakeholders' rights, and board independence respectively. Disclosure and board size, on other hand showed a negative effect. The result also shows that the relationship between corporate governance quality and firm value is negatively affected by ownership concentration, which means that the added value of corporate governance quality is not always maintained at high levels of ownership concentration. This study aims to emphasize the importance of corporate governance quality to all stakeholders, regulators, and policymakers in the Gulf Cooperation Council (GCC) region; and to see how new corporate governance regulations in the Gulf region have affected investment efficiency and firm value. This research has theoretically contributed to the corporate governance literature on corporate governance indices and quality by proposing a corporate governance quality model that considers all stakeholders. The practical implications of the study emphasize the importance of corporate governance quality as a driver of investment efficiency and firm value; companies are expected to manage resources effectively, and regulators can use the built corporate governance quality model to enact policies that improve corporate governance practices in the region.

CHAPTER 1

1.1 Introduction

The agency conflict of interest between managers and shareholders, can cause inefficient investment, resulting in over or underinvestment. Several prior studies looked into the influence of corporate governance elements, including board composition and responsibility, disclosure and openness, ownership structure, shareholders' rights, and reporting quality on monitoring managers' decisions and, hence, reducing agency issues. See for example Assad and Alshurideh (2020); Biddle, Hilary, and Verdi (2009); Chen and Sheng-Syan (2011); and Bimo, Silalahi, and Kusumadewi (2021). Despite the fact that corporate governance quality (CG quality) has received a lot of attention, and has been the subject of many legal and regulatory reforms around the world, there is scant evidence on its influence as one metric on increasing investment efficiency, particularly in emerging countries (Farooq, Gilbert, & Tourani-Rad, 2016).

Inefficient investments reduce corporate performance, the value of the company and the economic growth. Although there is empirical evidence in the literature that good corporate governance quality can alleviate various agency issues such as increasing company performance, decreasing agency costs, and removing underperforming CEOs, the evidence on its effect on direct measures of inefficient investment is less apparent (Farooq et al., 2016), especially in the developing economies such as Gulf Cooperation Council states. Therefore, it is essential to narrow this gap in the literature through investigating the influence of corporate governance on investment efficiency for publicly nonfinancial companies listed in the GCC countries' stocks markets.

Investment efficiency refers to the degree to which a firm's manager can take efficient investment decisions that do not result in under-investment or over-investment (Al‐Hadi, Hasan, Taylor, Hossain, & Richardson, 2017). Overinvestment occurs when management do not act in the best interests of shareholders and invest excessively, even in projects with a negative net present value (Jensen, 1986; Jensen & Meckling, 1976; Stulz, 1990). On the other hand, underinvestment occurs when company management passes up significant investment alternatives (Myers, 1977).

Jensen and Meckling (1976) argue that, because ownership (principal) and management (agent) of a company are separated, the issues of agency problem lead to the waste of corporate resources because of inefficient investment. To reduce the agency problem, corporate governance has been proposed to moderate the monitoring cost (agency cost) in firms (Ibrahim & Abdul Samad, 2011). According to Al-Malkawi, Pillai, and Bhatti (2014), corporate governance (CG) plays an important role in a company's commitment and adoption of ethical standards across the board. He continued, stressing that in addition to encouraging and supervising effective management, legal compliance, and the avoidance of illegal and inappropriate activities, CG ensures firms have contacts with workers, consumers, creditors, shareholders, and regulators.

Becht, Bolton, and Röell (2003) claim that corporate governance helps to solve the agency problem while enhancing company performance. According to this viewpoint, Becht et al. (2003) suggested that companies should make sure that shareholders see a return on their investment and that management shouldn't waste the capital provided by shareholders.. Other studies such as Fama (1980) and Fama and Jensen (1983a) also argue

that businesses with stronger governance mechanisms helps to mitigate agency problems and results in more efficient investment decisions and improve firm performance

Good corporate governance practices make firms more accountable and facilitate monitoring by shareholders and outsiders and lead to better and more efficient investment decisions and eventually to higher corporate value (Gugler, 2003a). The current research moves a step further than Gugler (2003), by constructing corporate governance quality model to assess the quality of corporate governance in the GCC countries and examines its impact on the efficiency of investments within the public firms in the GCC region. Corporate governance quality is described as a code of governance, standards, and the best practices created to determine whether a company is well-governed or poorly governed (Rahman & Khatun, 2017).

CG quality is a measure that combines multiple components of a company's governance system into a single figure to represent the quality level of the company's governance practice. It can be used to assess a company's ability to make effective investment decisions. In this perspective, it addresses corporate governance principles such as shareholder rights, board responsibilities, stakeholder rights, and CG mechanisms of board composition such as board size, independence, and committees. The quality of corporate governance examines the transparency and accountability of the business's governance-related issues and helps determine whether the firm is well-governed or not (Rahman & Khatun, 2017).

In the GCC countries, attention has been given to corporate governance practice since the beginning of the twenty-first century. Oman pioneered the formulation of the CG code in 2002, following the introduction of corporate governance by the Organization for Economic Cooperation and Development (OECD). All other GCC countries

developed and approved their own CG codes later, before the end of the first decade of this century. Institute of Corporate Governance in the GCC Countries (Hawkamah) in Abu Dhabi, United Arab Emirates (UAE) was established in 2005 to assist companies in the region to develop sound and globally recognized CG frameworks and to reinforce the idea of a better application CG framework in the region.

Although the GCC region, has seen several corporate governance reforms and rapid economic growth in the recent years, little research has been done on the issues of corporate governance quality and investment efficiency in the context of developing and emerging economies such as the GCC region (Assad & Alshurideh, 2020). Therefore, it is essential to examine these issues by investigating the impact of corporate governance quality on the efficiency of investments in this region

1.2 Background of GCC Countries

The Gulf Cooperation Council (GCC), which was originally known as the Cooperation Council for the Gulf Arab States, was established in May of 1978. It includes six countries: the United Arab Emirates, Bahrain, the Kingdom of Saudi Arabia, the Sultanate of Oman, Qatar, and Kuwait. The member states share a great deal in terms of ethnicity (Arabic), religion (Islam), political control (monarchy), and culture and customs (Shehata, Kakabadse, & Fleur, 2015).

The GCC countries also have common geopolitical and economic goals (Al-Malkawi et al., 2014). The member countries are very rich with enormous oil and gas deposits and a relatively high Gross Domestic Product (GDP) per capita (Baydoun, Maguire, Ryan, & Willett, 2013), Saudi Arabia is the largest oil producer on the continent. GCC economies are classified as having a high per capita income, a high GDP growth

rate, and a rapidly expanding capital market region, according to statistics from several sources, including international monetary fund (IMF), World Bank, and the International Financial Center. Table 1.1 shows the GDP of member countries for the period 2015-2020 with an overall upward trend except for 2020. Because of the substantial difficulties caused by COVID-19, along with a significant drop in oil prices, weighed heavily on the economies of the GCC countries in 2020. Nevertheless, the GCC countries are among the world's wealthiest countries in terms of GDP and per capita.

Table 1. 1 GDP of the GCC countries

Billion USD	2015	2016	2017	2018	2019	2020
UAE	358.1400	357.0500	382.5800	414.1800	421.1400	353.9000
BAHRAIN	31.1300	32.2500	35.4300	37.7500	38.5700	34.6200
KUWAIT	113.4200	108.7500	120.4500	139.7400	134.6300	108.6600
OMANN	68.9200	65.9400	70.7800	79.2900	76.3300	62.3100
QATAR	161.7400	151.7300	166.9300	192.0100	175.8400	147.7900
SAUDI ARABIA	654.2700	644.9400	688.5900	782.4800	792.9700	680.9000
TOTAL	1,387.6100	1,360.6600	1,464.7600	1,645.4600	1,639.4800	1,388.1700

Source: World Bank data 2020, IMF and Bourse Kuwait website 2020

1.2.1 GCC Countries' Economies

The GCC countries constitute an oil-based area with the world's largest crude oil reserves in the world at (35.7%). The region is not only the world's largest producer of petroleum products, but also the world's largest exporter. Worldwide, and mainly at Organization of the Petroleum Exporting Countries (OPEC), the region plays a key role. The GCC's oil reserves account for around 52% of overall OPEC oil reserves and 49% of the world's oil reserves according to data from World Bank.

Given the oil is the' primary source of exports and government revenues, there are many similarities in their economies. In the GCC countries, the oil and gas sector accounts for around 73 percent of total export earnings, 63 percent of government revenues, and 41 percent of GDP (Gulfbase.com, 2009).

The vast energy reserves held by member countries have produced a substantial source of competitive advantage, and oil revenue has allowed the GCC countries to achieve their present level of economic growth, which includes massive infrastructural investment. The importance of oil is demonstrated by its contribution to the GCC economies' Gross Domestic Product (GDP), (See Table 1.2). On other hand, the structure of the GCC economies and their growth performance may be split into two categories: oil and non-oil. There are two types of services in the non-oil sector: public and private. The private services business includes trade, restaurants, hotels, transportation, storage, housing, finance, insurance, and banking. Aside than providing water and electricity, the public services sector encompasses all services traditionally provided by the government.

Table 1. 2 Oil revenue as % of GDP

	2014	2015	2016	2017	2018
UAE	23.0400	13.1200	10.8300	13.0500	16.5900
BAHRAIN	4.5800	2.4400	1.8100	2.0100	2.3100
KUWAIT	54.3900	37.2300	32.1000	35.5100	42.4600
OMAN	35.9100	21.400	18.2800	21.7900	26.8600
QATAR	23	13.8200	11.7500	14.2400	16.5900
SAUDI ARABIA	40	23.2700	19.4400	23.0500	28.7100

Source: S &P Capital Database

Saudi Arabia, Kuwait, and the United Arab Emirates own 90% of the GCC region's oil reserves. Qatar, on the other hand, has the most natural gas reserves in the region, accounting for about 13.1 percent of world reserves. Qatar, Saudi Arabia, and the United Arab Emirates collectively possess more than 90% of the region's natural gas reserves, while the GCC countries all together own more than 80% of the region's natural gas reserves. Saudi Arabia is a major participant in the global oil industry, with more than 16% of the world's proven reserves (Al-Darwish et al., 2015).

In addition to being home to some of the world's largest sovereign wealth funds, the GCC countries play a major role in global energy markets in terms of production, exports, and the availability of enormous oil and gas reserves, and profit from comparatively cheap oil-mining costs (Sturm, Strasky, Adolf, & Peschel, 2008). The region's economies are among the world's fastest expanding, attributable to a rise in oil and natural gas income, as well as construction and investment boom supported by reserves. The economies of the Gulf Cooperation Council (GCC) member states have attracted a lot of attention in recent years. They have evolved into a pole of world economic growth because of high and growing oil prices since 2003. Members of the area are also becoming more significant as global investors and trade partners, and they are playing an increasingly vital role in global energy markets. Furthermore, they have joined the international policy debate on global imbalances, along with other major oil-exporting countries (Sturm et al., 2008)

The majority of firms in this region, including those belonging to the royal family, are overcapitalized, although it is unclear whether the extra capital is invested efficiently. Managers make investment decisions based on their own interests rather than the interests of investors, according to the agency cost theory. Managers, according to Jensen (1986) choose to reinvest free cash flow rather than distribute it to investors as a dividend or

profit. Given this, and the fact that GCC businesses are cash-rich, the proper deployment of this money into effective investment projects is a topic of discussion.

As previously stated the quick rise in oil prices, between 2000 and 2014, along with further increases in oil and gas extraction, resulted in a huge budget surplus in the GCC nations, as well as great investor confidence in investing in the area (Ari, Akkas, Asutay, & Koç, 2019)

Furthermore, large government spending, looser credit conditions, and strong domestic demand will continue to fuel rapid growth in infrastructure, real estate, and tourism, for example, MEED Business Intelligence estimates that Qatar's recent award of the FIFA Football World Cup 2022 will result in USD 60 billion in investments in the aforementioned sectors (OECD, 2011). These could bring to the multiplier effect of investment in other areas, where the effectiveness of investments is rather uncertain, given that the GCC countries area is rich in liquidity, which could stimulate expansion in neighboring countries.

According to OECD (2011) report, other sectors are also expanding. Governments in the Gulf Cooperation Council (GCC) have recently invested in renewable energy and higher education, as well as forged partnerships with institutions throughout the world. A zero-carbon city will be built in Abu Dhabi, United Arab Emirates, that will contain a renewable energy knowledge and technology center, which will collaborate closely with the Massachusetts Institute of Technology. The construction industry serves as a locomotive for all other sectors, stimulating many investments in various fields. Obviously, the efficiency of these investments is critical in order to ensure that these initiatives have benefited both investors and the countries, rather than simply following

the trend. One of the goals of this research is to figure out how efficient it was to spend this much money in the Gulf Cooperation Council countries.

Saudi Vision 2030 intends to grow potential industries into a new pillar of the economy by establishing the appropriate laws and regulatory frameworks, as well as promoting and facilitating investments in the Kingdom of Saudi Arabia. Saudi Arabia's Public Investment Fund (PIF) recently approved five-year strategy aimed at allocating at least 150 billion SAR (around 40 billion USD) annually into the local economy on an increasing scale until 2025, with the PIF aiming to surpass the volume of assets of 4 trillion SAR (Saudi Vision 2030, 2020)

Kuwait's government is dedicated to implementing its long-term Vision 2035 national development plan, which includes the building of new airports, ports, highways, industrial cities, huge residential projects, hospitals, a train, and a metro rail system. The Kuwaiti Northern Gateway proposal, which includes the Five Islands and Silk City projects, promises governmental and private sector investment in the creation of an international economic zone worth more than USD 400 billion over several decades (U.S. Embassy Kuwait, 2020). In order to keep pace with changes in the economy and the investment climate, corporate governance has undergone ongoing revisions and improvements in the Gulf Cooperation Council (GCC). For example, Farhan, Obaid, and Azlan (2017) state that, the government of the United Arab Emirates, strives to give great openness and accountability to local and global investors in order to retain its appeal as an investment destination, and corporate governance rules have been amended several times as a result.

Saudi firms were obliged to establish internal control systems in 2000, and corporate governance regulations were released in 2006, making Saudi Arabia the second Gulf country to implement corporate governance for public enterprises after Oman (Buallay, Hamdan, & Zureigat, 2017). With the issuance of the United Kingdom (UK) style voluntary Code of good CG practices in 2002, Oman became the first country in the GCC region to fully adopt International Accounting Standards (IASs) and International Financial Reporting Standards (IFRS) with the goal of increasing investor confidence in Omani firms' CG quality (Elghuweel, Ntim, Opong, & Avison, 2017). Various corporate governance changes have been enacted in all other GCC states, as detailed in section 1.2.6.

1.2.2 GCC Countries Stocks' Markets Development

The GCC stock markets began in the middle of the 1970s, with the formation of the Kuwait stock market in 1977, followed by the "Tadawul All Share Index" (TASI) in the Kingdom of Saudi Arabia in 1984. In the year 2000, the Dubai Financial Market (DFM) and the Abu Dhabi Stock Exchange (ADX) were most recently created marketplaces. The number of firms listed on the GCC stock exchanges increased from 473 in 2005 to 654 by the end of 2009 (Sedik & Williams, 2011) . In 2020, the total number of the listed companies in the GCC countries was 707 comprising different sectors, of which 203 companies in Saudi Arabia followed by Kuwait 170 companies, United Arab Emirates 128 companies, and Oman 116 companies as shown in Table 1.3. As shown in Table 1.4, at the end of 2020, total market capitalization was around USD 3.04 trillion of which the Saudi equity market accounted to 80%, followed by UAE at 10%, Qatar 5% and Kuwait 4%. The market capitalization of the Gulf Cooperation Council (GCC) as a percentage of GDP is comparable to that of several developing

economies. Market capitalization as a share of GDP at the end of 2020 was led by Saudi Arabia 356.44%, followed by Qatar 111.91%, Kuwait 100.50%, and United Arab Emirates 83.61%. The fast growth in the capitalization of the GCC stock markets, as well as the expanded number of listed firms, indicates that shareholders want to invest more. However, further research is needed to determine if this money was spent efficiently on investments or assets.

Table 1. 3 Stock markets total listed companies

	2015	2016	2017	2018	2019	2020
UAE	125	125	127	130	130	128
BAHRAIN	44	43	42	43	43	43
KUWAIT	189	195	190	196	172	170
OMANN	116	113	112	110	111	116
QATAR	43	44	45	46	47	47
SAUDI ARABIA	171	176	188	200	204	203
TOTAL	688	696	704	725	707	707

Source: World Bank data (2020)

Table 1.5 shows that public listed companies in the United Arab Emirates, Qatar, and Saudi Arabia had higher average cash than those in Oman, Kuwait, and Bahram. When taken as a whole, publicly traded firms in the area have high average cash balances, although the inclination for capital spending varies by country. With the exception of Saudi Arabia, which show a significant amount of cash have been invested as capital expenditure, other countries despite cash rich, only spent less than 15% in most of the covered years. This demonstrates that the region's nations have various levels of

investment spending, as well as varying degrees of capital allocation efficiency for associated investment projects.

Table 1. 4 Market capitalization, and as a percentage of GDP

Billions USD		2015	2016	2017	2018	2019	2020
UAE	M. Cap.	202.8600 56.6%	221.4300 62%	239.3900 62.6%	235.4500 56.9%	247.2100 58.7%	295.9000 83.6%
BAHRAIN	M. Cap.	19.2500 61.9%	19.3900 60.1%	21.7100 61.3%	21.8600 57.9%	26.8800 69.7%	24.9000 71.9%
KUWAIT	M. Cap.	87.6700 77.3%	87.3300 80.3%	91.9200 76.3%	93.3900 66.8%	118.1300 87.8%	109.2000 100.5%
OMAN	M. Cap.	41.1200 59.7%	23.2900 35.3%	21.3000 30.1%	18.7800 23.7%	17.1200 22.4%	16.7000 26.8%
QATAR	M. Cap.	0.4400 0.3%	0.3800 0.3%	0.6700 0.4%	163.0500 84.9%	160.0500 91%	165.4000 111.9%
SAUDI ARABIA	M. Cap.	421.0600 64.4%	448.8300 69.6%	451.3800 65.6%	496.3500 63.4%	2406.8200 303.6%	2427.0000 356.4%
TOTAL		772,396.7	800,648.4	826,359.6	1,028,884.8	2,976,213.6	3,039,100

Source: Data collected from World Bank (2019), Bourse Kuwait website, (GCC Stock Exchanges), Thomson Reuters; Bloomberg 2020

Table 1. 5 GCC Stock markets' capital expenditure (percentage of average cash)

Billion USD		2015	2016	2017	2018	2019	2020
UAE	Av. Cash	1173.5200	1231.3400	1855.8200	1690.8400	1502.1700	2013.2200
	Cap. Exp.	11.2%	9.9%	5.3%	5.9%	7%	4.7%
BAHRAIN	Av. Cash	253.4400	234.4800	238.8700	248.4800	270.0000	267.1400
	Cap. Exp.	6.4%	6.9%	15.9%	16.3%	10.6%	6.4%
KUWAIT	Av. Cash	260.1900	260.1900	260.1900	260.1900	260.1900	
	Cap. Exp.	8%	8%	8.8%	8.4%	9%	-
OMAN	Av. Cash	156.5800	109.5000	110.3900	137.7200	124.6400	120.0200
	Cap. Exp.	8.7%	12.3%	12.3%	10.7%	13.5%	12.9%
QATAR	Av. Cash	628.1200	830.8400	799.8200	1023.1000	1037.4800	1095.5700
	Cap. Exp.	13.1%	8.3%	6.1%	5.5%	5.2%	4.8%
SAUDI ARABIA	Av. Cash	288.4000	413.7900	449.0400	552.1600	470.6800	557.8200
	Cap. Exp.	68.8%	70.5%	60.5%	48.7%	53.3%	39.3%

Source: S& P Capital Database

Despite the growing number of publicly traded firms, the market remains concentrated, with the banking industry dominating in terms of market capitalization (Saidi & Kumar, 2008) . Saidi and Kumar (2008) demonstrate that, individual investors dominate the GCC stock markets, while international institutional involvement is low.

In the previous two decades, the securities exchange markets in the GCC countries have experienced substantial expansion. Investor earnings neared their greatest rates when oil prices reached their zenith within those decades, with low interest levels of approximately 1% (Bley & Chen, 2006). Economic reforms and market liberalization have been ongoing since the start of the first decade of this century, significantly increasing demand for shares in these capital markets. Foreign investors who were previously only allowed to own stock through mutual funds, if at all, are now granted a lot of flexibility to participate directly in the shares of local companies, whereas regional markets used to be a large reserved playing field for the GCC nationals (Bley & Chen, 2006).

1.2.3 GCC Countries Firms' Investment

During the first decade of this century, high peak oil prices resulted in huge fiscal and external balance surpluses, as well as increased investor confidence in the GCC countries.

Between 2000 and 2014, there was a noticeable growth in both public and private investment, owing to a continuous state increase in oil and natural gas extraction and worldwide pricing (Ari et al., 2019). Investments, within the GCC are mostly focusing on meeting the rapidly increasing domestic demand for energy, water, transportation, and building (Alshubiri, 2019).

Furthermore, world-class events like the Dubai World Expo 2020 in the United Arab Emirates and the Federation Internationale de Football Association (FIFA) World Cup 2022 in Qatar demonstrate the GCC economies' massive investment. The events result in financial investments and offer a significant stimulus to the tourist sector in the region. The question is whether all of these investments were made effectively. This study examines this issue and explores if CG changes in the region reduce inefficient investment, based on corporate governance practice in non-financial firms. For the years 2015 through 2020, Table 1.6 displays capital investment in dollars and as a proportion of GDP. Because of significant capital investment, the ratios were relatively high. However, the appropriate allocation of those vast sums of money to efficient investments deserves further consideration.

Table 1. 6 Capital investment, billion USD, and as a percent of GDP

Billion USD		2015	2016	2017	2018	2019	2020
UAE	Inv.	91.8200	92.900	97.5400	99.2700	100.400	88.900
	%	25.6%	26%	25.3%	23.5%	23.8%	25.1%
BAHRAIN	Inv.	7.9300	9.4000	11.6900	13.6900	12.7600	11.9300
	%	25.5%	29.1%	32.9%	36.3%	33%	34.5%
KUWAITT	Inv.	29.1300	32.7800	33.4700	35.4500	32.4300	30.9500
	%	25.4%	29.9%	27.7%	25.2%	24.1%	28.5%
OMAN	Inv.	20.2800	18.9000	19.4200	19.4300	15.6500	11.8300
	%	29.7%	28.9%	27.5%	24.4%	20.5%	19%
QATAR	Inv.	59.9500	74.1500	68.6500	74.5400	74.8700	-
	%	37.1%	48.9%	42.6%	40.7%	42.6%	
SAUDI ARABIA	Inv.	223.6000	199.5000	198.7000	189.4000	228.2000	188.4100
	%	34.2%	30.9%	28.9%	24.1%	28.8%	27.7%

Source: S&P Capital Database

The area has set aside a large sum of money to invest in transportation and logistics infrastructure. The GCC rail network was under construction and completed in 2018, at a value of USD 128 billion (Garry Watts & Hasnani, 2016). Qatar aspires to be an inventive country capable of maintaining development and delivering a high level of life by 2030, according to its National Vision. As a result, Qatar announced US$95 billion in public investment plans from 2012 to 2017, aiming at transforming the country into a major cultural, financial, and athletic hub as it prepared to host the 2022 FIFA World Cup (Scharfenort, 2012) . This mega-event poses a significant challenge for Doha, a wealthy young metropolis that is absorbing a significant share of the country's investments (ElGahani & Furlan, 2018).

Several government initiatives, such as the Burj Khalifa, Abu Dhabi airport development, Dubai Metro, Dubai Palm Island, and massive amounts of investment in the construction industry by targeting Expo 2020, have resulted in massive changes in

infrastructure building in the UAE over the last two decades (Sushil Jha & Tandon, 2019). Other GCC countries, like Oman, Kuwait, and Saudi Arabia, have also been expanding their real estate and industrial sectors. Every GCC country spends a significant amount of money on infrastructure and other public and private structures.

Despite the facts that some GCC countries have ran deficits in recent years, the GCC governments are unlikely to cut current expenditure levels in the near future. Instead, they will use their substantial budgetary reserves to fund infrastructure projects in order to prepare for significant future events and to defend their social systems from larger regional turmoil. The efficiency with which such funds were distributed is being reviewed.

1.2.4 Ownership concentration in the GCC Countries Firms

The GCC countries' institutional system is described as a centralized tribe, in which a group of royal families controls and manages dominant firms and many other aspects of the economy, due to common formal and informal institutional contexts, common geopolitical and economic structures, and the relationship between family business and the state (Martínez-García, Basco, & Gómez-Ansón, 2021) . High state domination and indirect interference; low importance of stock markets; high family wealth; high state-provided capital; and corporate governance with high ownership concentration, family ownership, and family intervention are all characteristics of this type of institutional system (Martínez-García et al., 2021). The lines between family and state are frequently broken in these economies.

Table 1. 7 Ownership concentration in listed non-financial firms in the GCC countries.

	BAHRAIN	KUWAIT	OMAN	QATAR	SAUDI	UAE	GCC
Institutional: Government	Constitutional monarchy	Constitutional monarchy	Absolute monarchy	Absolute monarchy	Absolute monarchy	Federation of constitutional monarchies	-
Institutional: Political system	kingdom	Presidential	kingdom	Presidential	kingdom	Presidential	-
Percentage of listed firms' shares held by significant shareholders by country	50.2%	56.5%	65.9%	37.6%	38.3%	53.0%	52.3%
Average number of significant shareholders in listed firms by country	**2.9**	**2.9**	**3.1**	**1.4**	**2.4**	**2.9**	**2.7**
Herfindahl-Hirschman index of ownership concentration in listed non-financial firms by country	**0.31**	**0.30**	**0.30**	**0.63**	**0.37**	**0.40**	**0.35**

Source: https://www.hawkamah.org/, 2020 statistical report

Table 1.7 shows ownership concentration in listed non-financial firms in the GCC countries. Large shareholders own more than 60% of shares in listed non-financial firms in Oman, while the percentages in Kuwait, the UAE, and Bahrain are between 50% and 60% of shares. Qatari and Saudi Arabia firms, on the other hand, have the lowest ownership (less than 40 percent of shares). Generally, there is a significant shareholders possession of more than 50% of shares in GCC listed companies.

Oman has the most significant owners in listed non-financial companies (on average, 3.1 large shareholders per firm), followed by Kuwait, the United Arab Emirates, and Bahrain (on average, 2.9 significant shareholders per firm). However, listed non-financial firms in Qatar have an average of only 1.4 significant shareholders, the lowest value among the GCC countries. Each company has 2.7 major owners on average.

The normalized Herfindahl-Hirschman index of ownership concentration assesses a company's ownership concentration with values ranging from 0 (equal distribution of

ownership among shareholders) to 1 (the highest concentration) (when there is a single owner holding 100 percent of voting rights). Qatar had the highest value (0.63) on the normalized Herfindahl-Hirschman index, whereas the UAE and Saudi Arabia had lower numbers, 0.40, and 0.37, respectively. Bahrain, Kuwait, and Oman have the lowest ownership concentration according to this index (around 0.3).

Moreover, the International Monetary Fund defined the GCC countries' company ownership structure as highly concentrated, with a state sector heavily involved in economic operations and holding companies, due to the above mentioned contextual factors (Martínez-García et al., 2021). As a result, GCC countries are suitable for studying how corporate governance and ownership interact to affect business value.

1.2.5 Development of Corporate Governance in the GCC Countries

The Hawkamah Institute for Corporate Governance was founded in 2006 to address the region's lack of corporate governance. International organizations such as the OECD, the International Finance Corporation (IFC), and the World Bank, as well as regional organizations such as the Union of Arab Banks and the Dubai International Financial Centre (DIFC) Authority, created the Institute (HAWKAMAH, 2021). The main objective of Hawkamah is to give firms and boards in the area practical tools for improving corporate governance, including engaging governments and industry, conducting surveys and research, and developing regional standards that might function as catalysts for transformation (HAWKAMAH, 2021).

In 2006, four criteria were highlighted as significant in a report prepared by the Institute of International Finance (IIF) and Hawkamah on the development of corporate governance standards in the Gulf Cooperation Council (GCC) (Hawkamah & IIF, 2006).

These criteria include stock price corrections by regulators to improve corporate governance frameworks; the GCC corporations' activities in international markets have increased, resulting in an improvement in private sector standards; banking sector compliance with Basel I and II regulations by central banks; and the opening of the GCC stock markets to overseas investors (Shehata et al., 2015). International organizations' efforts can be observed in the CG codes of the GCC countries. The International Finance Corporation (IFC) and the Global Corporate Governance Forum (GCGF), for example, updated the Bahraini code. Qatar established its CG rules in accordance with worldwide quality standards such as the OECD guidelines and the Global Governance Principles of the International Corporate Governance Network. Kuwait's code explicitly states that it is based on worldwide best practices and the OECD's corporate governance standards (Shehata et al., 2015).

1.2.6 Corporate Governance Codes in the GCC Countries

The GCC corporate governance regulations were developed using international best practices in corporate governance guidelines, as described in the previous section. In its publications, the Kuwaiti code (Capital Standards Rating Agency, CSR) mentioned, "Kuwait's corporate governance code includes principles and recommendations that are primarily based on the global best experience and the corporate governance guidelines published by (OECD) (Shehata et al., 2015). The following paragraphs cover the evolution of corporate governance regulations in the states of the region.

Kingdom of Oman

In 2002, Oman established the first corporate governance code in the area, named " Code of Corporate Governance for Listed Companies on the Muscat Securities Market (MSM)," which was later revised and replaced in 2003 (Oyelere & Al-Jifri, 2011). According to the corporate governance regulations in Oman, listed companies must include a separate section on corporate governance in their annual reports. The code consists of 28 items. It is a list of 11 elements to consider while writing a corporate governance report, including the company's philosophy, the board of directors, the audit committee and other committees, the process of director nomination, and board members' remuneration (Shehata et al., 2015). The Omani code, according to Oyelere and Al-Jifri (2011) "provides appropriate exposure of the major disclosure problems of importance in a market with a promising disclosure culture." The CG rules are mandatory in Oman, with distinct responsibilities for the board chair and CEO, a board size of 5-12 members, at least 2 independent directors with a 33 percent independence ratio, and the creation of audit, nominating, and compensation committees.

Kingdom of Saudi Arabia

The Saudi Arabian Capital Market Authority (SACMA) published corporate governance regulations in 2006, which were revised in 2009, and are applicable to all publicly listed companies on a comply/explain basis. According to the code, all publicly traded firms must provide corporate governance information, and noncompliance firms must otherwise explain their reasons to SACMA. The code includes five sections with 19 articles that cover the OECD's core CG principles. Introductory rules, investor and general assembly rights, transparency and honesty, board members, and concluding requirements are the five sections of the code. In 2008, Article 9 of the Saudi code, titled "Disclosure

in the Board of Directors' Report", was declared compulsory (Shehata et al., 2015). The Saudi Arabia CG rules are implemented on a compliant or explanatory basis with a few binding articles, including distinct responsibilities of the board chair and CEO, a board size of 3 to 11 members, at least 2 independent directors or a one-third independence ratio, whichever is greater, and the formation of audit, nominating, and compensation committees.

State of United Arab Emirates

The Abu Dhabi Securities Market published drafts in 2004 to start enforcing the CG laws in the state of UAE, which were subsequently revised in 2005. The corporate governance code was written by the Emirates Securities and Commodities Authority (SCA) in 2006 and published in 2007. Beginning on April 30, 2010, the code was issued on an obligatory, comply or be penalized basis; to put it another way, firms were allowed within three years (2007-2010) to conform to the declared CG rules (Foster, 2007). Foster (2007) believes that to improve transparency and shareholder rights, comply or penalize approach is required.

Finally, in 2009, the Securities and Commodities Authority (SCA) released the most recent corporate governance code, which superseded the previous code from 2007 (Kamal Hassan, 2009). The CG code, titled "Governance Rules and Corporate Discipline Standards", addresses new issues such as board construction and director roles and obligations. Corporate governance regulations in the UAE are mandatory and require a chairman and executive manager roles must be separated, board sizes must be between 3 and 11, with a 33 percent independence ratio. The board must appoint nomination and compensation committees, internal controls must be implemented, external auditors are

subject to strict guidelines, and firms are required to report on governance compliance to shareholders and regulators (SCA) (Shehata et al., 2015).

State of Kuwait

The Kuwaiti corporate governance law began to be developed in 2006, according to the Hawkamah–IIF study from that year. Kuwait's Capital Standards Rating Agency, on the other hand, published the "CSR's Corporate Governance Code for Public Companies" in 2010 (Shehata et al., 2015). It consists of seven corporate governance principles: shareholder rights, ownership type, equal rights of shareholders, stakeholder participation, disclosure and openness, board obligations, and management performance. With some mandatory articles, Kuwait's CG regulations are applied on the basis of comply or explain bases. Some of the provisions of the Code include distinct roles for the board chairperson and CEO, a board size of at least 3 members with no maximum limitation, at least 1 independent director, and not more than 50 percent of the independence ratio, and the creation of audit, nominating, and compensation committees.

Kingdom of Bahrain

According to a paper published in 2006 by Hawkamah–IIF, Bahrain's corporate governance legislation was drafted in 2006 and put into effect the following year. The "Corporate Governance Code", on the other hand, was not released until 2010. It was developed in collaboration with the Bahrain Central Bank on comply or explain basis by the Ministry of Industry and Commerce. The code applies to publicly traded corporations as well as financial institutions. It consists of nine corporate governance principles. An effective, collegial, and well-informed board of directors will lead the firm; the board must have strict financial audit controls; internal control and legal compliance; the board of directors must interact with shareholders and promote their involvement; and the

company's corporate governance must be disclosed. The provision of the Code are implemented on a compliant and explanatory basis, with main clauses s including the separate responsibilities of the chair and the CEO, a board size of 5 to 15 members, at least one-third of independent director , and the formation of audit, nominating, and compensation committees.

State of Qatar

The corporate governance code in Qatar began to be developed in 2006, according to the Hawkamah–IIF study issued in 2006, and implemented in 2007.

However, it was not until 2009 that the "Corporate Governance Code for Companies Listed in Markets Regulated by the Qatar Financial Markets Authority" was published. The code follows a comply/explain model. The code is split into ten parts and consists of 31 articles: compliance with corporate governance; board of directors; internal controls; external auditor; disclosure; shareholder and stakeholder rights; corporate governance report; and code enforcement

"The Governance Report is an important component of the Company's annual report and must be attached to it, signed by the Chairman, and include the Company's disclosure on its compliance with the terms of this Code", according to article (4) of the code. The Governance Report needs to contain 11 items, including disclosure, shareholders' rights, board responsibilities, board size of 5 to 11 with 33 percent independent directors, separate roles of a board chairman and the CEO, creation of audit, nominating, and remuneration committees, and details on board members' remunerations. Table 1.7 presents a review of the GCC countries CG Codes.

Table 1. 8 Review of CG codes in the GCC countries

Country	Oman	Saudi Arab.	Qatar	UAE	Kuwait	Bahrain
CG Code name	Regulation for Public Joint Stock Companies	Corporate governance regulations	Governance Code for Listed Funds	Governance rules and corporate discipline standards	CSR's corporate governance code	Corporate governance code
Date Of Publication	2002	2006	2009	2009	2010	2010
Latest Revision	2021	2021	2019	2021	2015 & 2019	2018
CG Regulator	Capital market authority	Capital market authority	Qatar Financial Markets Authority	Securities and Commodities Authority	Capital markets Authority	Central Bank
Compliance basis	Comply Or explain	Comply Or explain With few mandatory articles	Comply Or explain	Comply/warning and or penalize	Comply Or explain With few mandatory articles	Comply Or explain
Disclosure of Annual Reports	√	√	√	√	√	√
Annual Report on CG	√	√	√	√	√	√
Disclosure of Related Parties Transactions	√	√	√	√	√	√
Accounting Standards Required	IAS24	IAS24	IAS24 and articles no.4 & 26 of the CG code	IAS24	IAS24	IAS24
Min-Max Board Size	5-11	3-11	5-11	3-11	5- NO max.	5-15
Board Chair And CEO Roles	Separated	Separated	Separated	Separated	Separated	Separated
Required Committees	- Audit - Constit. - Remun.	- Audit - Nomin. - Remun. - Risk mgt	- Audit - Nomin. - Remun.	- Audit. - Nomin. - Remun.	- Audit - Nomin. - Remun.	- Audit. - Nomin. - Remun.

Source: data collected manually by reviewing the GCC countries CG codes