UNIVERSITI PUTRA MALAYSIA

IMPACT OF CORPORATE GOVERNANCE REFORMS ON FINANCIAL REPORTING QUALITY IN SELECTED MIDDLE EASTERN COUNTRIES

AHMED HUSSEINALI

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By

AHMED HUSSEINALI

Thesis Submitted to Graduate School of Management, Universiti Putra Malaysia, in Fulfilment of the Requirements for the Degree of Doctor of Philosophy

November 2015

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DEDICATION

To my beloved parents

Whom their love, prayers, encouragement and support have been surrounding me and guiding me through my life. Through their wisdom and discipline behaviors I learned and absorbed the relationship with Allah SWT.I cannot say enough about how I owe everything I have achieved to them. I hope one day I will be able to return some of their favors.

Abstract of thesis presentation to the Senate of Universiti Putra Malaysia in fulfilment of the requirements for the Degree of Doctor of Philosophy

IMPACT OF CORPORATE GOVERNANCE REFORMS ON FINANCIAL REPORTING QUALITY IN SELECTED MIDDLE EASTERN COUNTRIES

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Chairman : Cheng Fan Fah, PhD
Faculty : Graduate School of Management, UPM

Financial crises that affected the stock markets in the Middle Eastern countries highlighted the importance of the financial reporting quality and the needs for financial reforms that can develop financial reporting system. Studies on financial reporting quality (FRQ) have been neglected in the Middle East region. Although in recent years many Middle Eastern countries have initiated western-style corporate governance (CG), little research has been attempted to assess the impact of improved CG reform on FRQ. The present study addresses these shortcomings by setting three objectives using a sample of non-financial firms listed on the Saudi Stock Exchange (Tadawul), the Abu Dhabi securities exchange (ADX), representing the United Arab Emirates (UAE), and the Qatar stock exchange (QSE). The study employed five characteristics of the companies' board of directors as measures; namely, Chief Executive Officer (CEO) duality, presence of independent members of the board of directors, holding of multiple directorships, financial expertise of directors, and social title of directors, as well as two ownership characteristics; namely, directors' ownership and institutional ownership. The first objective of this study is to investigate the impact of CG reform on FRQ. This which achieved by investigating the trends of FRQ before and after the introduction of CG reform, where an independent sample t-test was used to examine the differences between firms' FRQ averages before and after the reform was introduced. The second objective is to investigate the effect of changes required in the composition of boards of directors and ownership structures on FRQ, using a regression model under fixed effects estimators. In order to measure the FRQ, the study adopted Working Capital Accruals quality (WCAQ) as the most appropriate measure to capture the transparency and reliability of the financial reporting. The third objective is to assess the moderation role of CG reform on the relationship between CG characteristics and FRQ, which was achieved through including interaction terms for the CG reform and the variables of interest.

The main findings of this study indicate that reform in CG was indeed associated with an improvement in FRQ in both Saudi Arabia and the United Arab Emirates (UAE), but not in the Qatar sample. The result of test for the second objective indicated that characteristics of Saudi boards of directors and ownership structure can explain the variation of firms FRQ to a greater extent than those of UAE and Qatar governance principles. The study contributes to the theory by extending financial reporting quality and corporate governance reform in accounting. The implications of this study include; government regulators can use the findings of this study to evaluate CG frameworks in their respective countries; and policymakers, can gain a better understanding of the weaknesses and the strengths of recent CG reform in their countries. The findings suggested that Middle Eastern countries should develop their CG system based on the real needs of the local stock market in order to enhance their financial reporting systems.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk Ijazah Doktor Falsafah

KESAN PEMBAHARUAN URUS TADBRI KORPORAT KE ATAS KUALITI LAPORAN KEWANGAN DI NEGARA TIMUR TENGAH TERPILIH

Oleh

AHMED HUSSEINALI

November 2015

Pengerusi : Cheng Fan Fah, PhD
Fakulti : Sekolah Pengajian Siswazah Pengurusan, UPM

Krisis kewangan yang melanda pasaran saham di negara-negara Timur Tengah menunjukkan akan pentingnya laporan kewangan yang berkualiti dan keperluan kepada pembaharuan kewangan yang mampu membangunkan sistem laporang kewangan yang berkesan. Kajian menunjukkan laporan kewangan yang berkualiti (*financial reporting quality, FRQ*) tidak diamalkan di rantau Timur Tengah. Walaupun mutakhir banyak negara-negara Timur Tengah telah mengamalkan tadbir urus korporat cara barat (*corporate gorvenance, CG*) , hanya sedikit dari kajian telah dijalankan bagi mengenal pasti kesan peningkatan *CG* dalam pembaharuan *FRQ*. Penyelidikan terkini telah cuba untuk mengatasi kekurangan ini dengan menggariskan tiga objektif menggunakan satu sampel firma-firma bukan kewangan yang disenaraikan di Bursa Saham Saudi (Tadawul), Bursa Saham Abu Dhabi (ADX) dari Emiriah Arab Bersatu (UAE) dan Bursa Saham Qatar (QSE). Penyelidikan ini menggunakan lima ciri-ciri Lembaga Pengarah syarikat seperti langkah-langkat berikut; iaitu, pembahagian Ketua Pegawai Eksekutif (CEO), kehadiran anggota berkecuali dalam Lembaga Pengarah, pemegangan pelbagai jawatan pengarah, kepakaran kewangan pengarah dan gelaran social pengarah, serta dua ciri-ciri pemilikan; iaitu pemilikan pengarah dan pemilikan institusi. Objektif pertama penyelidikan ini ialah menyiasat kesan CG dalam pembaharuan FRQ. Ini boleh dicapai dengan menyiasat kecenderungan FRQ sebelum dan selepas pengenalan pembaharuan CG, di mana sebuah ujian sampel berkecuali digunakan dalam mengkaji perbezaan antara purata FRQ syarikat-syarikat sebelum dan selepas pembaharuan diperkenalkan. Objektif kedua pula ialah menyiasat kesan perubahan yang diperlukan dalam komposisi Lembaga Pengarah dan struktur pemilikan pada FRQ, menggunakan model regresi dibawah kesan pengganggar tetap. Untuk mengukur FRQ, penyelidikan menggunakan Modal Kerja Akruan Kualiti (*Working Capital Accruals Quality, WCAQ*) sebagai langkah paling sesuai untuk mendapatkan ketelusan dan kebolehpercayaan laporan kewangan. Manakala objektif ketiga ialah untuk menilai keserdehanaan peranan CG dan melakukan pembaharuan kepada hubungan ciri-ciri CG dan FRQ yang dicapai melalui termasuk istilah interaksi pembaharuan CG dan pembolehubah berkepentingan. Penemuan utama kajian ini menunjukkan bahawa pembaharuan CG sememangnya dikaitkan dengan peningkatan FRQ di kedua-dua negara iaitu Arab Saudi dan Emiriah Arab Bersatu (UAE), tetapi tidak bagi sampel ketiga, iaitu Qatar. Hasil dari ujian bagi objektif kedua menunjukkan bahawa ciri-ciri Lembaga Pengarah dan sturktur pemilikan Arab Saudi dapat menjelaskan perubahan FRQ syarikat-syarikat ke tahap yang lebih besar daripada prinsip-prinsip tadbir urus di UAE dan Qatar. Kajian ini menyumbang kepada teori dengan lanjutan kauliti laporan kewangan dan pembaharuan tadbir urus korporat di dalam bidang perakaunan. Implikasi kajian ini termasuk; pengawal selia kerajaan boleh menggunakan hasil kajian ini untk menilai rangka kerja CG di negara masing-masing; dan pembuat dasar, boleh mendapatkan pemahaman yang lebih baik mengenai kelemahan dan kekuatan pembaharuan CG yang mutakhir di negara masing-masing. Hasil kajian mencadangkan bahawa negara-negara Timur Tengah perlu membangunkan sistem CG mereka berdasarkan keperluan sebenar pasaran saham tempatan dalam usaha meningkatkan sistem laporan kewangan mereka.

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I certify that an Examination Committee met on 27 November 2015 to conduct the final examination of Ahmed Husseinali on his thesis entitled "Impact of Corporate Governance Reforms on Financial Reporting Quality in Selected Middle Eastern Countries" in accordance with the Universities and University College Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 2008. The Committee recommends that the student be awarded the degree of Doctor of Philosophy.

Members of the Thesis Examination Committee were as follows:

Foong Soon Yau, PhD
Professor
Director (Thesis Based Programme)
Putra Business School
(Chairman)

Norman Mohd Salleh, PhD
Professor
Dean
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
(External Examiner)

Assoc. Prof. Dr. Muslim Har Sani
Department of Accounting
Kulliyah of Economics and Management
Islamic International University of Malaysia
(External Examiner)

Prof. Dr. David Campbell
Newcastle University Business School
NE1 4SE United Kingdom
(External Examiner)

PROF. DATUK DR. MAD NASIR SHAMSUDDIN
Professor/Deputy Vice Chancellor
Universiti Putra Malaysia

Date:

On behalf of,
Graduate School of Management
Universiti Putra Malaysia

This thesis was submitted to the Senate of the Universiti Putra Malaysia and has been accepted as fulfilment of the requirements for the degree of Doctor of Philosophy.

The members of the Supervisory Committee were as follows:

Cheng Fan Fah, PhD
Associate Professor
Faculty of Economics and Management
Universiti Putra Malaysia
(Chairman)

Taufiq Hassan, PhD
Associate Professor
Faculty of Economics and Management
Universiti Putra Malaysia
(Committee Member)

Shamsher Mohamad Ramadili, PhD
Professor,
INCEIF
Kuala Lumpur
(Committee Member)

____
PROF. DATUK DR. MAD NASIR SHAMSUDDIN
Professor/Deputy Vice Chancellor
Universiti Putra Malaysia

Date:

On behalf of,
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Universiti Putra Malaysia

Declaration by graduate student

I hereby confirm that:

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Name and Matric No.: Ahmed Husseinali / GM03980

Declaration by Members of Supervisory committee

This is to confirm that:

- the research conducted and the writing of this thesis was under our supervision
- supervision reponsibilities as stated in Rule 41 in Rules 2003 (Revision 2012 – 2013) were adhered to.

Chairman of Supervisory Committee

Signature : ______________________________
Name : Assoc. Prof. Dr. Cheng Fan Fah
Faculty : Faculty of Economics and Management, UPM

Member of Supervisory Committee

Signature : ______________________________
Name : Assoc. Prof. Dr Taufiq Hassan
Faculty : Faculty of Economics and Management, UPM

Signature : ______________________________
Name : Prof. Dr. Shamsher Mohamad Ramadili
Faculty : INCEIF, Kuala Lumpur

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LIST OF ABBREVIATIONS

ADX	Abu Dhabi Securities Exchange
BD	Board of Directors
CEO	Chief Executive Officer
CG	Corporate Governance
CGC	Corporate Governance Codes
FRQ	Financial Reporting Quality
FASB	Financial Accounting Standards Board Statement of Financial Accounting
FR	Financial Reports
GAAP	Accepted Accounting Principles
IFRS	International Financial Reporting Standards.
KSA	Kingdom of Saudi Arabia
OECD	Organization for Economic Co-Operation and Development
QSE	Qatar Stock Exchange
QCGC	Qatari Corporate Governance Code
SCGC	Saudi Corporate Governance Code
SCMA	Saudi Capital Market Authority
Tadawul	Saudi Stock Exchange
UAE	United Arab Emirates
WCAQ	Working Capital Accruals Quality
WCA	Working Capital Accruals

CHAPTER 1

INTRODUCTION

1.1 Introduction

This study examined empirically the associations among Corporate Governance (CG) reform and Financial Reporting Quality (FRQ), with particular reference to the emerging Middle Eastern stock markets. This chapter presents the background to the study, followed by the problem statement of the study, the objectives of the research, the importance of the study, and concludes with a description of the structure and content of this thesis.

1.2 Background of the Study

In the past century, the notion of financial reporting has changed from a simple concept into a combination of very important practices that affect the interests of several parties who constitute the users of financial reports. Financial statements and the report of the external auditor can affect the decision process in business life, which can indirectly affect the interests of other stakeholders (Baker & Wallage, 2000). Financial reporting quality demonstrates the accuracy level that can achieved by financial reports (FR) to deliver information to all of the firm's stakeholders to clarify the firm's transactions, and specifically its predictable cash flows (Biddle, Hilary & Verdi, 2009). This is in harmony with the first concept of the Financial Accounting Standards Board (FASB) Statement of Financial Accounting (1978), which states that the most important goal of financial reporting is to update present and potential investors with the needed information to guide their investment decisions and evaluate the predictable cash flows.

Hence, the importance of financial reporting derives from its position as the vital basis of information for the process of decision-making. Investors decide whether (or not) to purchase stocks by analyzing the financial reports of firms. Gopalakrishnan (1994) and Beatty and Weber (2003) showed that creditors choose to loan and initiate contractual terms (such as interest rates) and to consider financial figures based on a company's financial reports. Accounting reports are essential because capital markets behave asymmetrically (Fields, Lys & Vincent, 2001). Bradshaw (2004) posits that financial reporting is crucial in international capital movements and thus, accounting quality is of great concern. Bharath, Sunder and Sunder (2008) argued that poor accounting quality would make it hard to estimate a firm's ability to repay debt and to pay dividends. In contrast, high earnings quality reduces financial information asymmetry by increasing investment efficiency (Verdi, 2006), and by making earnings more representative of future cash flows (García-Teruel, Martinez-Solano & Sánchez-Ballesta, 2009).

On the topic of a firm's performance in the capital markets, Christie and Zimmerman (1994) showed that an accounting alternative is more effective once it significantly improves a company's value, although it differs throughout industries and time. The recent global financial crisis that witnessed the falling of giant companies both in Europe and Asia increased awareness for investors to take into consideration the quality of financial statements produced by companies before making any decision about whether to invest or not. It is vital for investors to have a thorough analysis of the financial reporting of the potential company they seek to invest in. On the other hand, the financial crisis raised a fundamental question of corporate governance: that is, to what extent are managers able to provide better and qualitative financial reporting that can mitigate investors' losses and improve their decisions? Corporate governance is considered to be a mechanism which helps improve several agency problems (Jensen & Meckling, 1976). Separation of the owners and the management of a corporation may cause a conflict of interest, as managers are believed to be more likely to use a corporation's resources for their own interest rather than the owner's interest, thus leading to a waste of some resources by investing under uncertainty and with high risks. In order to remain in their positions longer, managers may manipulate financial reports to show that the corporation is sound while the reality on the ground is very different. Moreover, the CG as a concept focuses on the protection of the stakeholders by providing strong controlling and monitoring systems that can ensure a high level of the transparency and FRQ (Cadbury Committee, 1992; John & Senbet, 1998). In terms of CG interests, the enhancement of the financial reporting is one of the CG system's main goals (Norwani, Mohamad & Chek, 2011). Both FRQ and CG systems interacted with each other to build a strong protection system that can be a central point for stakeholders. For example one of the main responsibilities of the board of directors as a CG mechanism is to guarantee the firm's FRQ system. This system is expected to provide stakeholders with the information they need and expect (Al-Haddad et al., 2011). Hence, investigation into the link between corporate governance reform and financial reporting quality is an essential issue that is worth investigating both for researchers and to assist in investment decisions. After the Gulf War in the early 1990s, many Middle Eastern countries decided to end their dependence on oil and gas as major sources of national income and to diversify their sources of national income by considering other sources, especially those related to the financial sector. The main interest was in capital markets. Responding to the pressure posed by globalization following the global financial crisis, regulators in the Middle East region have taken actions that made the financial reporting quality level and mechanisms of corporate governance in Middle Eastern exchange markets become important elements in the stock markets and business environments. Beginning in early 2000, the significance of applying sound corporate governance practices began to percolate into the consciousness of regional Middle Eastern regulators and the private sector (Koldertsova, 2010). The 2006 stock market crash was particularly severe in the countries of the Gulf Cooperation Council[1] and local stock markets fell dramatically. While this stock market crash was not triggered by any particular corporate scandal (as the cases of Enron or Lehman Brothers in the United States), it led regional regulators to reflect on how to make capital markets less prone to nervousness and to be less rumor-driven, which in turn led to serious thinking about corporate governance. The first corporate governance code in the Middle East region

[1] Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE).

was issued in Oman in 2002. Oman, Egypt and Saudi Arabia were the pioneers in the region, developing domestic governance codes in 2002, 2005 and 2006, respectively. Following these three countries, the majority of regulators in the region moved to establish and adopt high corporate governance standards. Furthermore, the process of issuance and, in some cases, revision of specialized standards is continuing in the Middle-East region. These corporate governance codes issuance processes and corporate governance reform programs, including various amendments to the legal provisions, mainly focus on a firm's FRQ, in particular issues of financial disclosure and the transparency of companies. This turned financial reporting into an important process that establishes an essential source of information to protect investors by providing monitoring and controlling by managers' and owners' behaviors, in addition to providing information in a system of clarity and transparency.

1.3 Problem Statement

In the last three decades, Middle East region countries have witnessed dramatic changes in their financial regulations system and accounting associations. The majority of accounting bodies in the Middle East were established in the 1970s. However, most of them become functional for effective accounting roles only at the beginning of the 1990s. For example, in Saudi Arabia the first accounting committee was established in 1974 to observe accounting practices, while the Saudi Organization for Certified Public Accountants (SOCPA) was established nearly two decades later in 1991. Furthermore, the period of the 1990s witnessed the real liberalization of Middle East region stock markets, when firms began to apply Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS), since there were no previously existing standards required in the local capital markets. The introduction of these two accounting standards (GAAP and IFRS) into the Middle East region business environment reflects a realization of the importance of financial reporting quality. Recent developments and the reform of the legal and financial system are the most important elements that can reduce the agency problem among firms and stakeholders. In this way, sound corporate governance reform and development in the financial and legal system enhances the quality of both corporate governance and financial reporting systems (Al-Shetwi, Ramadili & Chowdury, 2011). Realization of the importance of FRQ in the Middle East region can be seen in the growing attention paid to this issue by the regulatory system and accounting bodies, with the holding of conferences (e.g. "Disclosure and Transparency in Financial Reporting, Qatar 2008"), and studies such as that by Naser and Nuseibeh (2003) entitled: "Quality of Financial Reporting: Evidence From the Listed Saudi Non-Financial Companies" to enhance the financial reporting quality in the Middle East region.

The need to improve corporate governance and FRQ is an important and essential requirement in the business environment which has motivated many researchers to investigate how corporate governance can mitigate conflicts between managers and shareholder (for example: Cohen, Krishnamurthy & Wright, 2004; Liu & Lu, 2007). Some researchers were interested in studying the multifaceted influence of corporate governance on a variety of variables: the intertwined formula of the financial reporting quality; and the multilateral role of both governance and FRQ. As a result, a large number of studies in this area were published (e.g. Beekes, Pope & Young, 2004; Bradbury, Mak & Tan, 2006; Cashen, 2011; Sánchez-Ballesta & García-Meca, 2007; Yeo, Tan, Ho & Chen, 2002). However, unlike other relationships and other variables, issues of financial reform and its impact are complex and volatile; it is always dynamic because it is influenced by public financial policy and the approaches followed by the policy makers. Sound corporate governance mechanisms, especially those concerning the board of directors and ownership structure, aim to solve the agency problem by increasing the monitoring role that can be provided by these mechanisms. A continuous review of the promoted corporate governance mechanisms can lead to an enhanced financial reporting system. In other words, these reviews and reforms are expected to improve the relationship between the board of directors and ownership structure and the firm's financial reporting quality.

New insights are provided by the present study because it incorporates the influence of the unique features found in Middle Eastern countries, with their monarchical systems of government, their oil-based income system and their newly established stock markets. The nature of the corporate governance framework and financial reporting system in the Middle East therefore differs from the corporate governance and financial reporting frameworks found in the advanced economies or in other emerging markets. Thus, there are critical research issues not yet investigated by previous studies in the field of corporate governance reform and financial reporting quality. First, after the 2006 stock market crash, the Asian financial crisis and the global trend towards universal application of corporate governance, regulators in the Middle Eastern financial markets began to think seriously about how to make corporate governance more practical and market-relevant rather than merely theoretical. This launched a chain of financial reform programs to protect the national economies of the Middle East region and to protect investors and the private sector. The unique features of the region, in which a majority of the countries are ruled by a monarchy, stock markets are newly established, economies are based on oil income and the legal system is based on Islamic principles, provide a challenge when adopting and applying CG and financial reporting systems. Furthermore, they raise questions about the capability of theories developed in very different contexts to explain the concepts and the relationships in a region that differs so markedly from advanced economics or other emerging markets. Previous research has not provided an answer to the question of whether the financial reform in the Middle Eastern financial markets has, or has not regained investors' levels of trust by providing credible tools to make investment decisions; for example by improving the quality of financial reporting. Secondly, the majority of reform programs in Middle Eastern countries are either imported standards from developed economies or standards from trans-national organizations such as the Organization for Economic Co-operation and Development (OECD), which may raise questions about the compatibility of imported standards with the needs of the Middle East business environment. Moreover, it is important to discover the effectiveness of these standards to achieving the expected level of governance in different Middle Eastern countries. Finally, the majority of academic studies in financial reporting, corporate governance, and financial reform programs have been conducted in developed markets or in some of the strongest emerging markets, which means that the results of these studies cannot be generalized to different economic settings. For example, Nahar (2010) investigated the relationship between corporate governance reform and financial reporting quality in Malaysia. However, the question remains whether those results can be generalized to the Middle East, given the unique features of the Middle Eastern region markets. It is questionable whether the same mechanisms or concepts of corporate governance in those countries that have been studied would have the same results and effects in other legal and financial environments, especially in the Middle Eastern markets. Middle Eastern economies have their own characteristics and dynamism, yet very little research on financial reporting quality and corporate governance reform in these economies has been conducted thus far. Therefore, the question whether corporate governance reform does, or does not, improve the quality of financial reporting in the Middle East financial markets is an empirical issue that has not yet been answered. This research presents the similarities and the differences among selected Middle Eastern countries and the level of the effectiveness of corporate governance practices achieved in these countries. Saudi Arabia, UAE and Qatar have engaged recently in a CG reform programs that allow investigating its efficiency unlike other countries such as Bahrain, Kuwait and Yemen which start their reforms after 2010 that affect the ability of examine its efficiency. In addition, these countries are the highest economics in the region, oil based economies and monarchical regimes that make them a very unique environment that can show a new insight.

1.4 Research Objectives

The main aim of this study is to investigate the impact of CG reform on the quality of financial reporting. To achieve this aim, three objectives were formulated, as set out below:

i. To investigate the trend of FRQ in the listed firms of selected Middle East countries and to determine whether the FRQ has, or has not, changed following the introduction of corporate governance reform programs.
ii. To examine the relationships between selected elements of corporate governance (board of directors) and ownership attributes and the FRQ in a sample of listed firms from selected Middle Eastern countries.
iii. To examine the moderating effect of corporate governance reform on the relationship between selected elements of governance (board of directors) and ownership attributes and the FRQ in a sample of listed firms from selected Middle Eastern countries.

1.5 Research Significance and Contributions

The association between corporate governance and financial reporting quality has been documented in a number of studies carried out in developed countries (e.g. Cohen et al., 2004; Donelson, McInnis & Mergenthaler, 2012). This study investigates the role of governance reform programs in improving the quality of financial reporting in selected Middle East stock markets which possess several unique governance characteristics. The study findings can guide the development of governance reform and indicate how to further enhance the quality of financial reporting of firms in these countries. The study has developed its own models that link FRQ with five characteristics of boards of directors and two characteristics of ownership structure. main boards of directors' features discussed within GC framework in Middle Eastern stock markets are the role duality, board members independent, board members financial experiences , BD member multiple directorships and director's ownership. The existence of the royal family member at firms' BD as a unique feature in the Middle East business environments is expected to have a significant impact in such environment. Enhancing the credibility, transparency and quality of corporate reporting are the main aims of the middle eastern corporate governance reforms which still an empirical question about achieves its goal or not. In addition, the efforts in Middle Eastern stock markets to attract the institutional investors highlighted the importance of this feature among the corporate governance framework. The importance of the results of the current study stems from the new insights that are provided in respect of several aspects:

1. The ability of the reform programs of corporate governance applied in the Middle East countries to make a real change in the quality of financial reporting while taking into account the unique environment for each of the corporate governance systems and financial reporting in these countries which have monarchical systems of government, which rely on oil as the sole source of national income, and which have recently engaged in substantial reforms in their financial systems and economic programs.

2. The study provides new insights into the extent of similarities and differences between countries in the Middle East. These insights will help the international institutions that publish the rules of corporate governance to better understand country-specific features and highlighted the most effective mechanisms to be applied in different environments. Furthermore, the countries in this region adopt different standards regarding financial reports, and the results of this research will add more information to keep pace with reform programs in companies with different systems of corporate governance standards for their financial reports. The results of this study will also enable policy-makers in Middle East countries to select more appropriate reform programs of corporate governance for their own environment, in addition to enhancing their knowledge of the characteristics of the most influential programs of corporate governance in the financial environment and business to enable them to upgrade corporate governance and financial reporting system in their own contexts.

3. The study will also shed further light on the effectiveness of accounting theories, especially agency theory, mainly in the Middle East environment and, in particular, to assess the ability of these theories to explain the relationship between corporate governance and financial reporting in the Middle East environment. In addition, it facilitates a re-consideration of the relations between the mechanisms of corporate governance and financial reporting in the Middle East environment with its unique characteristics.

1.6 Study Motivation

Financial crises in the Middle East region (for example, in Saudi Arabia in 2006, and in UAE in 2008) encouraged most Middle East countries to diversify their sources of income and adopted plans for economic and financial reforms. One of the most important financial reforms undertaken by Middle East countries over the last ten years is corporate governance reform. Corporate governance aims to develop the financial system and provide a safe investment environment by providing high quality financial reports that can reflect the true status and performance of companies. The recent wave of corporate governance reforms in the Middle East motivated the researcher to investigate the benefits of those reforms on quality financial reporting, as one of the most important anticipated outcomes of these reforms. The growing attention paid to CG and FRQ as new issues in the Middle East region triggered this study to investigate the relationships between CG, FRQ, and financial reforms in selected Middle East stock markets. As corporate governance became more widely adopted in the Middle East based on packages imported from America, Britain and international institutions (such as the OECD), important questions were raised about the suitability of these reforms in the context of Middle Eastern countries with unique and very different socio-economic features, including oil based economies, monarchical systems, and the prevalence of Islamic, Arabic and Bedouin cultures. In most countries of this region, these are among the greatest influences on institutional systems (Chahine & Tohmé, 2009; Yom & Gause, 2012). Nevertheless, similarities among the Middle Eastern countries raised questions about the expected reactions to CG reform, and whether differences and similarities occur in response to specific features unique to each country.

1.7 Organization of the Thesis

This thesis is organized into six chapters. Chapter One provides an overview of the background of the study, and sets the problem statement, the study objectives, and the importance and significance of the study. Chapter Two reviews the literature related to corporate governance, Financial reporting quality, the relationship between CG (board of directors and ownership) and FRQ, and prior research on CG, FRQ, and financial reform in Middle East region. Chapter Three discusses the research environment regarding CG and FRQ in Middle Eastern countries. Chapter Four presents the research hypotheses and methodology, especially the study sample and the studied variables, and the measures that were used in this study. Chapter Five presents and discusses the study results. Finally, Chapter Six summarizes the study findings and provides the major conclusions of the study.

1.8 Chapter Summary

In this chapter four main points were discussed: first, the background of the study was outlined that clarified the roots of current study; then, the problem statement focused more tightly on the specific area of concern in the study and shed light on efforts that have been made since the financial crisis and how those efforts will affect the FRQ. This section also clarified the presence of various laws and regulatory frameworks that can lead to different results. After that the chapter presented the three main research objectives: first, is to examine whether changes have occurred in FRQ after CG reform was introduced in the study sample. Second, is examine the relationship between characteristics of boards of directors and ownership on the one hand, and FRQ on the other hand. Third, is to investigate whether any moderation affect can be found in the relationship analyses in objective two. Fourth, the significance of the study is discussed, and its implications for researchers, the literature, stock markets and investors, and policy makers.

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BIODATA OF STUDENT

Ahmed Husseinali was born in Saudi Arabia on 22 May 1981. He earned the bachelor degree in Accounting from the Islamic University- Gaza on 2002. In 2004 he awarded Master degree from the Arab Academy for Banking and Financial Sciences. The author taught accounting subjects in Al-Quds Open University Gaza.

He serves in the Ministry of Finance in Palestine from 2005 to 2014. He serves as the general director of the Department of Administration and Finance Affairs in the Ministry of Health in Palestine since 2014.

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